The Growth Builders Report

Ontario's fastest growing firms share their insight

1999-2000

ONTARIO

THE WISDOM Exchange

101-07232/

Minister of
Economic Development
and Trade

Hearst Block, 8th Floor
900 Bay St.
Toronto, Ontario
M7A 2E1
(416) 325-6900
Fax (416) 325-6918
www.ontario-canada.com

Ministre du
Développement économique
et du Commerce

Édifice Hearst, 8e étage
900, rue Bay
Toronto (Ontario)
M7A 2E1
(416) 325-6900
Télécopieur (416) 325-6918
www.ontario-canada.com

Ontario

On September 29, 1999, almost 200 presidents and CEOs of some of Ontario's fastest growing firms gathered at the annual Wisdom Exchange in Toronto to discuss the common challenges they face in managing growth. They freely shared their ideas and knowledge about sustaining and accelerating the growth of their companies. The Growth Builders Report records their insights and experiences.

Ontario's leading growth firms are powerful job creators. While leading growth firms account for about two percent of the 300,000 businesses in Ontario, they are responsible for six percent of employment in the province and create approximately one third of all new jobs.

In June 1999, the Innovators Alliance was launched as a member-based, non-profit corporation for presidents and CEOs of Ontario's fastest growing firms. During the evening of the Wisdom Exchange, I was pleased to host the Innovators Alliance's inaugural dinner. Evolved from the Wisdom Exchange, the Innovators Alliance provides a year-round network supporting the continued success of the province's fastest growing firms.

The Business Exchange was a new feature at this year's event, permitting participants to schedule one-on-one meetings on-line in advance of the forum. Over 70 meetings were held during the day. The next Wisdom Exchange will be held in Toronto on November 2 - 3, 2000 and will include an expanded Business Exchange.

I would like to thank the presidents and CEOs, presenters and corporate sponsors who so generously shared their insights and experiences. I hope those who were able to attend, as well as entrepreneurs across Ontario, will benefit from what I believe are a unique event and an exceptional report.

Al Palladini
Minister

Table of Contents

Introduction

- About Growth Builders in Ontario 2

Profiles

- Paul Godin, Founder and Chairman, Bid.Com International Inc. 6
- Paul Russo, Chairman and CEO, Genesis Microchip Inc. 8
- Heidi Lang, President & Founder, TMG/Transatlantic Marketing Group 10
- Ashraf Dimitri, President and CEO, Oasis Technology Ltd. 12

Chapter 1 The path to growth

- Key Challenges 15
- Capitalization 17
- Delegation 19
- Customer Contact 21

Chapter 2 Strategy

- Strategy 24
- Partnership 25
- Organizational Issues 26
- Customer Issues 28

Chapter 3 Managing growth

- Planning and Pacing 31
- Financing 33
- Acquisitions 34
- Leading the Growth Process 35
- Changes in the CEO's Style 37
- Executive Scalability 39
- Employee and Culture Changes 40
- Team Building 42

Chapter 4 People

- The HR Function 46
- Hiring 47
- Motivating and Retaining Employees 51
- Compensation 53
- Soft Skills 55
- Succession Planning 56

Chapter 5 **Managing hypergrowth**
- People 59
- Governance 60
- Strategies 61
- Financing 62

Chapter 6 **Big leaps – mergers and alliances**
- IPOs 66
- Mergers 67
- Alliances 70
- Bailing Out 76

Chapter 7 **Managing your resources**
- Developing the Right Mix of Resources 79
- Watching Trends 84
- Seizing Opportunities 86
- Financing 89

Chapter 8 **Technology integration**
- Where Are We Going with the Internet? 92
- www Opportunities 94
- People Issues 96
- An Assessment of Our Progress So Far 97
- A Cost/Benefit Analysis 99

Participating Firms and Websites 101

Participating Sponsors and Websites 105

Growth Builders: All the right moves...
- The 1999-2000 Growth Builders Report is a management resource that records the insight and knowledge shared by CEOs and presidents of leading growth firms who participated in the Wisdom Exchange on September 29, 1999. The Event Programme appears after page 105.

Introduction

The Wisdom Exchange is a peer-to-peer forum that is for and about Presidents and CEOs – they are the only people who are invited and the firms they lead are limited to smaller and mid-sized firms that meet stringent criteria of rapid growth.

Leading growth firms and their CEOs share a unique perspective. The opportunities they pursue and the challenges they face breed a unique style of leadership. Their commitment to rapid growth compels them to manage a punishing pace of change that sets them apart from other firms. While these CEOs must, at all times, give their management team a sense of cohesion and shared purpose, they must, at the same time, reserve for themselves the task of understanding how each step in their evolution inevitably gives way to the next. It is not always possible or prudent for them to develop their ideas and strategies in concert with colleagues at their own firms. Yet they need someone to talk to – someone who understands their dilemmas and who can offer perspectives that may trigger solutions to any number of challenges.

Since 1995, the Wisdom Exchange event has proven that inspiring men and women find that CEOs of other rapidly growing, smaller firms are their most fertile source of ideas, strategies and inspiration. To enable the freest possible flow of ideas and information at the Wisdom Exchange, participants are broken up into small, completely unstructured groups that allow for an intimate exchange of views. The resulting plethora of provocative ideas, relevant experience and sound advice has been highly rewarding to all participants, who often build lasting relationships as a result.

The Growth Builders Report is a collection of possible solutions to each of a series of defined challenges and problems raised during the sessions at the Wisdom Exchange. This format enables readers to skim through the material quickly in order to find areas of special interest – and then mine the participants' insights for ideas that can help their own businesses. This report is not intended as a prescription. It is a record of some of the innovations that have enabled almost 200 dynamic business leaders to overcome their problems and meet their challenges on the path to rapid growth. It is filled with ideas that any business can adapt to its own particular circumstances.

Sometimes the ideas are contradictory, which offers reassurance that no one size ever fits all. Always, they are provocative, interesting, useful and meaningful.

About Growth Builders in Ontario

There are remarkably few high-growth firms in any developed economy and Ontario is no exception: less than 2% of the 300,000 businesses operating in the province – or 6,000 firms in all – meet our criteria for growth firms:

- They have grown by 50% over the three years for which data are most recently available.
- They employ between 20 and 500 people (or have sales of at least $2 million if they have fewer than 20 employees).
- Their global headquarters are in Ontario.

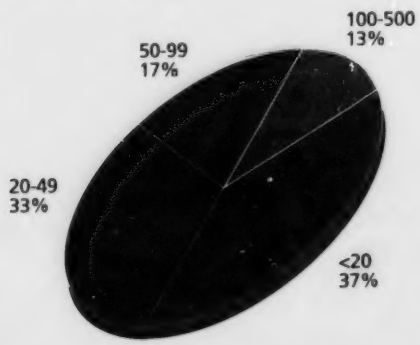
Yet these firms are powerful engines of economic growth: they account for 6% of employment in the province – a percentage that is growing rapidly – and create about one third of all new jobs in the province. Also, because their head offices are located in the province, their need for business services to facilitate their growth is an important contributor to the development of the business infrastructure every jurisdiction needs to grow and compete globally.

High-growth firms are distributed throughout every industry, but many of their characteristics are quite distinctive compared to the general run of businesses. In the next few pages, we take a brief look at the statistical highlights of a study conducted for the Ministry on leading growth firms in the province. Eighteen CEOs were interviewed in order to provide context for the statistical findings. We look at the firms as well as the CEOs who run them, focussing on their approaches to leading and managing firms that are committed to rapid growth.

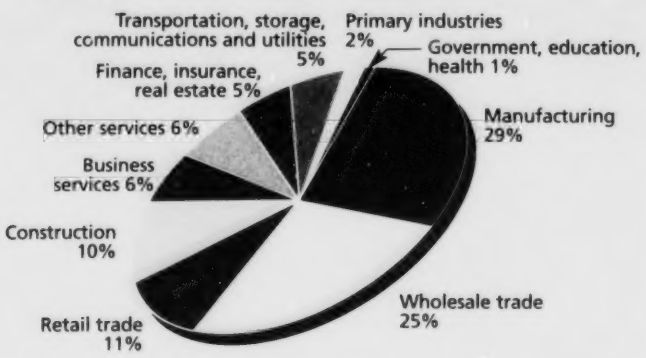
Where are the firms?

The largest number of leading growth firms are at the smaller end of the range – more than one third have fewer than 20 employees (and more than $2 million in sales). This group of firms can be viewed as the breeding ground for the next stage of growth – the 4,000 firms with 20-500 employees that are a major force in the economy. The latter represent more than 14% of the total number of firms with 20 to 500 employees. In other words, once firms pass the 20-employee mark, a significant percentage of them commit themselves to rapid growth. They represent the cream of the crop in this vital sector of the economy – emerging firms with the potential to grow really big.

Distribution of firms by number of employees

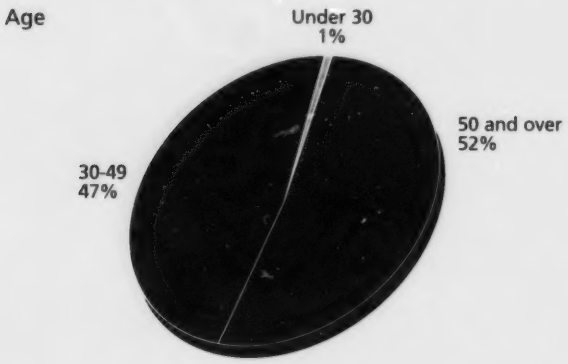


Distribution of firms by industry



Leading growth firms exist in every industry, but they are most prominent in manufacturing, which accounts for 29% of the total. The next industry is wholesale trade, with 25%, then retail and construction, which account for a little more than 10% each. Remarkably, business services, which has been the fastest growing sector in the economy for several years, does not produce a high percentage of the leading growth firms, but the ones it does produce are extraordinarily successful – their growth rate is by far the highest, at more than double the average rate for all growth firms.

They're experienced...



Who are the CEOs?

The people who run them are mostly men (less than 10% are women) and they are generally very experienced (more than half are older than 50, while only 1% are younger than 30). And they don't stand still:

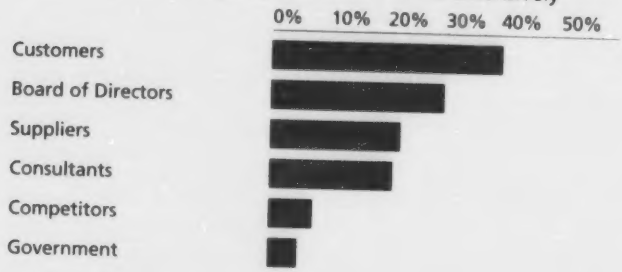
"We are absolutely committed to growth. One of the things that I strongly believe is that if you're not growing, you're dying. Business is an attrition thing: you replace business that you lose; you also seek new business to try and build.... you have to view your company as an organic, dynamic changing fluctuating entity which needs to be fed... You can't just milk it."
Peter Pekos,
President, Dalton Chemical Laboratories

Although they are highly competitive, these CEOs don't spend a lot of time scrutinizing their competition for clues on how to run their own companies:

"We don't design our business on the basis of what our competitors are doing. We are who we are and our competitors are who they are. We're cognizant of our competitors, but we don't run our business around what the competition is doing. We have our own little niche. Although now we're much more aware of who our competition is, and really, a lot of the awareness comes from our clients."
Michael Abramson,
President, The Adlib Group

They consult others extensively...

Percent of CEOs using key sources of advice extensively



CEOs focus heavily on their customers, who are their favourite source of advice for their businesses. They also usually have a board of directors, whom they use constructively for advice. Suppliers and consultants are the next most important sources.

Distribution of manufacturers, by size and by number of countries to which they export

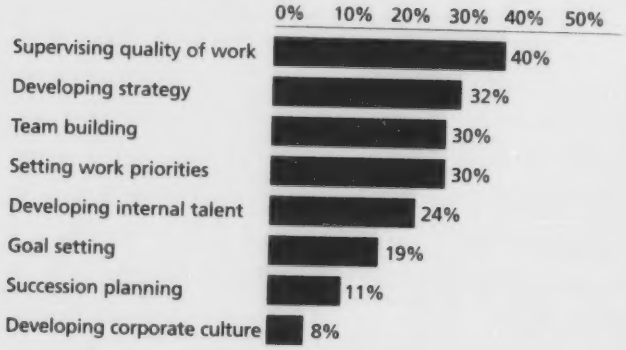
Size (# of employees)	Number of countries exported to		
	1	2	3+
<20	47%	24%	29%
20-49	24%	47%	29%
50-99	18%	47%	35%
100+	11%	40%	50%

Export orientation

A little over one half of the leading growth firms sell their products and services only within Canada. However, many of them are in industries such as retail, where exporting is generally rare. Manufacturing firms are highly export-oriented: only 19% of those with more than 20 employees do not export, and more than a third export to three or more countries – i.e. to countries other than the US.

They are very focussed...

Percent of CEOs who rate the activities below as a priority



Strategic priorities

The expected behaviour of CEOs as their companies grow is to reduce the time they spend on detailed supervision – such as supervising the quality of work and setting priorities – and to increase the time they spend developing strategy and building a team to which they can delegate the more detailed work. This is also the pattern at leading growth companies, but, unlike more conventional business leaders, these CEOs do not drop all the detail work as they take on an ever increasing load of strategic development: detailed supervision remains their main priority, followed by strategy and team-building. They are focussed, hands-on and think long term.

Profiles

Four of the CEOS who were panelists in this year's Wisdom Exchange agreed to be interviewed. They represent a cross-section of the high-growth firms that are building Ontario's economic future. Three of them are high-tech leaders – all very focussed on securing a dominant position in their niche and guarding against whiplash as their volatile markets take off. Two of them are Internet companies that are staking out their territory for the coming explosion in Internet business. The fourth is a manufacturer of more traditional products (picture frames and mirrors) whose innovative leadership strategies are anything but traditional. All four CEOs must deal with the challenges of hypergrowth including customer focus, hiring and retaining employees, anticipating future needs and assembling the right advisors.

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THE WISDOM Exchange

Bid.Com

Paul Godin loves auctions. It started in Montreal, in the 1970s, when he used to go to the flower market at five o'clock in the morning to watch the Dutch auctions. "It took me a couple of visits to figure out what was actually happening," he says. "They're bringing inventory through and suddenly it was gone, and I didn't know how much it sold for or who bought it, or anything." He was hooked. He still is, but he did not want to confine himself to a single room; he dreamed of doing it with a mass audience. For lack of any practical tools to make it happen, however, his idea languished as a dream until 1993, when he quit his job to bring his idea to life through the emerging phenomenon of the Internet. To put bread on the table, he did some consulting on the side, but all his energy went into developing the look and feel of the original shows, and preparing the patent applications and trademark registrations. He has no background in software, but he hired some very good engineers and some sophisticated source code writers. "I just saw it," he says. "So when we actually filed a patent, I had it tip to tail. It was done."

But it was not over yet. Two Australian PhDs had been working on the same concept simultaneously and filed for a similar patent with the US patent office. The examiner was required to award the patent to whomever was judged to have come up with the idea first, and the Australians looked good because they had published a paper on the process. Godin had not published anything – but he was lucky: "I'm a packrat and I kept every piece of paper and every note, including napkins, when I was scribbling stuff in the early '90s." He searched his old boxes and found all his original drawings of the Dutch auction process – how it would fill a screen, with actual stick men drawings and every detail. "They were all dated," he says. "When I walked into our patent and trademarks lawyer's office and laid it all out, it looked as though I'd gone through somebody's garbage!" It was good enough for the examiner, who ruled that Godin was three years ahead of the Australians.

A Dutch auction works well for goods and services that are "perishable" because they have a limited life span. The flower wholesaler, for example, might charge $5 a dozen for his tulips at 6 a.m., but he knows that they will be hopelessly wilted 24 hours later, and therefore worthless. So as the day progresses, he lowers his price in order to ensure that he will sell all his inventory before its value evaporates. "It's the 'killer' application right now," he says, "certainly on the Internet." It operates well for airplane seats on a scheduled airline, or white space in a newspaper, or even high fashion as the season gets under way. But the Dutch auction does not apply to low-end clothes which have a timeless (if more mundane) appeal. Nor does it apply to commodities where producers prefer to reduce excess inventory by cutting their production rather than their prices.

Chairman and Founder
Paul Godin

"There is nothing more empowering than allowing people to set their own price. And in an auction you set your own price. If you don't get caught up in the fervour and the craziness of it, and the competitive nature of it, you set your own limit; you say that's what I'm prepared to pay for it, I don't want to go over it."

At a Glance

1999 sales (estimated)	$28.7 million
Employment (estimated) at 1999 year end	80
Average annual growth rate – 1997/1999	
Sales	231%
Average annual growth rate – 1995/1999	
Employment	127%
Percentage of 1999 sales in:	
Exports	99%

Godin and two employees launched Bid.Com on the wings of his Dutch auction process in the fall of 1995, but he has since spread his bets. He now offers a fixed-pricing model for e-commerce as well as variable pricing. And there is more. He believes that the technology that is driving e-commerce now will change the way we live – "the way we educate ourselves, the way we converse with each other, the way we build community spirit. And that's going to change the way we buy. This is real-time marketing, real-time consumer preference identification, and target marketing, the most cost-efficient way you can do it."

He believes the hottest part of the market today is business-to-business. Bid.Com recently started a division that auctions off heavy machinery (including a $300,000 Caterpillar) on the Internet, for example, and is expanding into other "verticals," such as hydraulic engineering, refurbished computer hardware and copiers. He believes that media companies will capture the business-to-consumer segment, because they are best at "capturing eyeballs." For the rest of the world, however, business-to-business is the key to long-term success: "It's first mover; it's consolidation; it's who are you allied with and who's pointing traffic at you. In the next two to three years, how fast can you put a big footprint and a toehold in business-to-business? Because the first guys out in business-to-business are going to be like lichen on a rock. They're going to be just very, very hard to get off that rock."

Bid.Com has come a long way from its Dutch auction patent, which represented only 15% of sales in 1999. However, Godin expects this figure to rise in the future, as Bid.Com raises its focus on business-to-business services. "What we really want to do," says Godin, "is to become an enabler, a core application to businesses globally. We want to enable businesses to conduct variable and fixed pricing and database marketing and database harvesting, so that we're recognized as having the most stable, functional, flexible e-commerce platform across a broad segment of different business verticals."

To make that happen, Godin has engaged in a flurry of alliances, which give him a toehold in virtually every field. He is providing auctioning services through America Online in the US and CapGemini (the European arm of Arthur Anderson), which will take the process to the 22 countries where it operates. He has licenced his process to Rogers Media in Canada and to a subsidiary of NBC in the US. Upfront costs for a licence are anywhere from $1 to $2 million, just to get Bid.Com to the table. Rogers paid $1.8 million for their Canadian license, TorStar paid $2 million, Cap Gemini paid US$2 million for France. "Then there's ongoing revenue shares, because that's where I think the money is, long term."

Godin believes that the field will consolidate into three or four major players in e-commerce. These companies will have to have the requisite technology and something unique and proprietary. There is not a long list of companies that meet these criteria. He sees two of them as being IBM and Microsoft. "Then there's certainly room for a guy like Bid.Com. Kind of the dark horse!"

Genesis Microchip Inc.

When Taiwan was hit by a terrible earthquake in September 1999, Paul Russo's first thought was for the Taiwanese who were hurt and killed. His second thought – in very quick succession, one suspects – was for his company, which manufactures 90% of its products in two Taiwanese factories that were damaged by the quake. Genesis designs and markets integrated microchips for a variety of applications in imaging and digital display, but it subcontracts the fabrication of its chips to giant factories owned by the majors. The disruption in sales following the quake was a nasty surprise for a company that had averaged 150% annual growth the previous four years.

With estimated sales of $85 million in the year ended March 2000, Genesis has already become a significant player in the brand-new field of imaging chips. When Genesis began to develop its first chip – which shrinks, zooms and warps images without compromising image quality – there were no other companies in the field. Being a pioneer carries a price – in this case, $40 million and nine hard years of nerve-wracking R&D – but soon after Genesis launched its chips in 1996, sales just took off. Then came the real payoff for being an industry leader. The computer manufacturers were beginning to look at flat-panel displays and Russo knew the next version of his chip could be a player in that market. The call was not long in coming. "We had kept in touch with Apple for several years," Russo says, "and they saw the same potential. So their technicians came to us and said: 'We think you guys have the best zoom technology in the world, which is fundamental to these LCD monitors. We'll work with you to define a chip for that market.'" The result was his Z1 chip, which two years later accounted for three quarters of his much higher revenues. Meanwhile, Genesis R&D had accelerated and the company is now diversifying into a series of new families of chips for digital CRTs, DVDs and high-definition TV.

With the exploding market, however, has come the inevitable rush of new competitors."Now we have to maintain our leadership," says Russo. "Our focus today is growth and competitiveness. We want to be #1 in the new market – the consolidator." Last year, Genesis announced a takeover of Paradise Electronics Inc. and it is actively looking for more acquisitions to round out its technological and market assets. Russo is also doing everything he can to cement his primacy in his niche. "We're developing strategies for tying up with key industry leaders and key customers – like Samsung – making sure that they're part of our future plans and they know where we're going and we're part of their road maps."

It is never a smooth path, however. Shortly after the Taiwan earthquake, Genesis suffered another setback. The demand for LCD screens had started taking off in 1999 and the supply shortages allowed the major producers to raise their prices. Toward the end of the year, however, they increased the price just once too often and demand collapsed. Inevitably, when they slowed production to reduce inventory, they stopped buying chips and Genesis' sales fell by a third in the last quarter of the century. Unlike some of his earlier reverses, however, Russo's setbacks in 1999 were mere blips, forgotten within a few months.

Chairman and CEO
Paul Russo

"In high tech, things move fast – you get knocked down, you get up, dust yourself off and try again. I came to Canada for one project and it went bankrupt. We started another company with National Semi-conductor, which pulled out two years later and we almost went bankrupt. We started a third time and this time we succeeded. I think in high tech, that's the kind of mindset it takes. We learn from it."

At a Glance

Annual sales to March 2000 (estimated)	$85 million
Employment at 1999 year end	150
Average annual growth rate 1995/2000	
Sales	141%
Average annual growth rate 1994/1999	
Employment	58%
Percentage of 1999 sales in	
R&D	25%
Exports	99%

The road ahead is more interesting, because Russo has set his sights high:

"Our goal is to create a company with a lot of value. There are companies around us, in Toronto, that have sales ten times ours, whose market capitalization is less than Genesis. Our market cap today is more than ½-billion dollars – before the earthquake, it was ¾-billion dollars, or 20 times the previous year's sales. That's a pretty high valuation. We want to make this company as successful as the company can be, so that we can make a mark on the world."

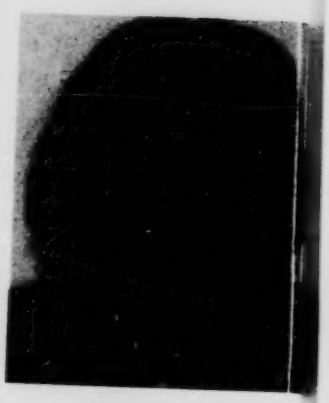
Russo's approach resonates in the US, where he studied and worked for 20 years before returning to his native Canada. He had a stellar career in the US, first with RCA Labs, then with GE, where he wound up running a micro-electronics centre. By the time he turned 40, he knew he wanted more independence. So he came back to Canada in 1987 to start his own business. First he joined a firm that, unbeknownst to him, was living off the notorious SRTC program and went bankrupt eight months after he arrived. Then he hooked up with National Semiconductor to build a chip factory in Canada – but that too died when NS went to Israel instead. All the time, however, he had been working in the background with two former colleagues who had developed the advanced mathematical algorithms that subsequently became the basis for Genesis' first microchip. However, the remarkable success of his company so far is only the hors d'oeuvre for Russo. Even though he is already a wealthy man who could take it easy and play a lot of golf, that's not his idea of fun. "That's not what drives me," he says. "I want a market cap of a billion dollars."

He feels comfortable in the environment of Silicon Valley. "Americans want to go and create a Microsoft," he says. "The guys who start companies in Silicon Valley are all worth a fortune, but that's not what drives them. They want to succeed globally." There is nothing in Canada like the tuned-in, turned-on environment of Silicon Valley. He knows now how much he missed the kind of expertise on his board that is so readily available there. He had very smart people on his board, but they couldn't help Russo make his decisions. "When I'd tell them what was happening, they'd say: 'Well, what do you want to do?' And I'd say: 'I think we should do this.' And they'd say: 'That sounds good – go and do it.' Because they didn't know any better. I wish now I'd had some people there with more experience who would have said 'Well, how about this and how about that,' because I think we made mistakes that we probably wouldn't have made if we'd had a more sophisticated and knowledgeable board." That's why Russo makes his home in Silicon Valley now, while the Genesis head office remains firmly anchored in Markham.

TMG/Transatlantic Marketing Group

When her infant business was still operating out of her basement, Heidi Lang installed an EDI system for direct electronic ordering for her clients. There are companies with sales in the tens, even hundreds of millions of dollars that have yet to install an EDI system, but Lang figured that her clients – which include some of the biggest names in retail in the US, such as JC Penney and TJ Maxx – demanded a high-tech relationship with their suppliers.

But then she has always liked keeping on top of things. "I feel very uncomfortable when I don't know where I am," she says. "We were profitable from the day we started, because we watch everything. We do weekly cash flows; we run daily reports on plant output. When something is off, we analyze it and make revisions. We don't wait until the month is over and say: 'Oh my God, how come I'm 30 short?'" She says she has seen too many companies go bankrupt because they did not have a good handle on their business – and she will not make the same mistake. When her business was only two years old, she put together her first five-year plan and used it to raise money from one of the leading venture capital firms in Canada.



President
Heidi Lang

" I want to succeed with my five-year plan, so I have to implement the structure now in order to get there. I have to invest now into people to build that next plateau of the company."

It has worked for Lang. After only six years, her company, TMG/Transatlantic Marketing Group, had sales of $5.3 million and 84 employees. In 2000, if Lang's meticulous plans bear fruit, sales will pass $8.5 million. "I already know now where I want to go and how I'm going to do it. I've got enough people around me now who can crunch the numbers to see what I can afford. Now, the only question we have to look at is: Can I afford to take on extra debt? What are the consequences if I don't raise any additional capital?" It is a rhetorical question now – she has done the math and has decided to take on extra debt, because she is opening several new offices in the US as her business expands across the continent.

TMG sells picture frames to major department stores in North America and the company is making significant inroads against its much bigger competitors by using a unique marketing strategy. Lang tailors her products and pricing to the financial exigencies of her clients. She examines their sales patterns, asks them what kind of gross profit margin they need, then provides them with an exclusive product that can sustain the required price. She will even arrange for customized designs that are compatible with, say, a retailer's Ralph Lauren month. This enables her clients to improve their profit margins, because her designs are not replicated with any other client, so they never have to worry about discounting their stock to compete with identical merchandise in other stores.

Part of Lang's secrets are her European connections in Italy and Britain. She chooses the most suitable of her suppliers' designs and buys their moulded strips, adjusted for North American taste (which is much more conservative). Then she assembles the strips into frames at her North Toronto factory. She is firmly against trying to do the design herself (it requires large, expensive machines and the ability to track constantly changing fashions).

At a Glance

1999 sales (estimated)	$5.3 million
Employment (estimated) At 1999 year end	84
Average annual growth rate – 1994/1999 Sales	117%
Average annual growth rate – 1994/1999 Employment	124%
Percentage of 1999 sales in Exports	98%

She also sticks resolutely to the traditional designs favoured by the over-35s. And she won't get into the business of selling pictures or prints to fill the frames either, since she has already found out that, when customers don't like the picture, they won't buy the frame. "You can't be good at everything," she says. "I can't grab everything from the market and I don't want to. I'm good at what I'm doing right now in my small niche within each department; let the contemporary styles be covered by someone else. I really don't want to end up like my competitors, having to buy the things everybody else buys and then trying to work off my inventory."

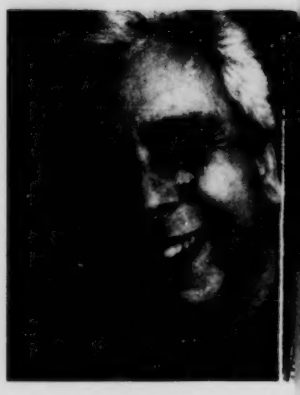
However, this year, she has diversified into another line – mirrors. She can sell them into existing accounts and it is a very large line, so her sales will jump up to $2 million immediately. She is also looking ahead to diversify into photo albums by acquiring a company already in the business. In her five-year plan, she has identified contingent paths toward annual sales of $25 million and she is already building the infrastructure that will take her there. In 2000, she plans to hire another 20 employees plus a chief financial officer to take some of the detail off her own shoulders. "If you cannot delegate you're not going to be a good manager," she says. "You're wasting your time doing things which someone else could do, because you're not using your important time for something you're really good at." She is applying the same principles down the line, too: "We review current managers who are doing too much nitty-gritty work, instead of managing or budget planning or number crunching. We're better off hiring someone more senior over them, who is able to focus on the most important things. This is the biggest problem with managers – delegating."

She is highly conscious of the evolving demands on her managers as the company grows, so she is hiring ahead of her needs. But she also knows that not all of the new managers will take her through to $25 million in sales. "I won't hire a manager who has run a $50-million or a $100-million company because he would be bored here. So we are taking it only to the next level. Most of our managers can make the leap to $12 million, but after that, going toward $25 million, you need a different set of managers. So we will have to hire again."

As she builds in more layers of management, however, Lang does not retreat into an ivory tower. She keeps close touch with every worker in TMG. She takes a walk around the plant three times a day whenever she is in town. On Fridays, she often puts on her jeans and does a stint on the assembly line. "I cannot manage people well unless I have done their job myself," she says. "Actually, I like it, too. It gets me away from my day-to-day responsibilities." However, this does not mean she manages by consensus. "I have learned," she says, "that no one can really help you make decisions in a business. They can give you advice or analysis, but in the end you have to say: 'This is what I want.'"

Oasis Technology Ltd.

Ashraf Dimitri is always on the look-out for good people. A few years back, he met a man who he knew would make a great contribution to his company, so he offered him a job. The man turned him down because he did not want to move to Toronto, but he later changed his mind, because Dimitri opened an office in his home town, Beirut, just for him. Now Dimitri, CEO and co-founder of Oasis Technology Ltd., is opening new offices in Silicon Valley's San Jose. He does not have anyone in mind this time, but he knows there is a good selection of the kind of people he needs and he knows they won't move from California, so he is going to set up shop there. "The biggest challenge we face is attracting the right people," says Dimitri. "It is incredibly difficult to find them, recognize them, attract them and keep them."



President
Ashraf Dimitri

"I'd like to be wealthy. Any entrepreneur who tells you he's going to change the world is lying. What's fun about creating business is the marker, which is wealth. However, I also believe that a tremendous amount of that wealth should be given back to the community. So I structure my life around that."

Oasis needs the people to sustain the spectacular growth that has taken it to $30 million in sales since Dimitri founded the firm in 1989 with his partner, Sunny Siu. With 300 employees at the end of 1999, Dimitri expects to hire another 100 to 120 in 2000, as sales approach $50 million. The driver of this growth is a modular software package that controls the electronic payment systems behind ATMs, point-of-sale machines, telephone banking and Web commerce. Every time someone does a transaction through any of these "touchpoints," it sets off a transfer of funds which involves the purchaser, the merchant, two banks, credit card companies and, increasingly, payment gateways for security purposes. Similar systems existed before Dimitri and Siu invented their software, but they were all proprietary and very expensive. The Oasis product is an "open system", which means it can connect to any existing software platform (Unix, Windows NT, for example). This opened up electronic funds transfer to Third World countries (where Oasis got its first contracts), but the company also penetrated markets in North America and Europe, simply because it gets the job done more cheaply.

Oasis is now expanding some of its core concepts into other industries. It has developed a control system for medical services for people who are travelling outside their home town. And it is moving into the transportation and telecom industries. Dimitri believes that the massive expansion of bandwidth (the "pipes" that carry electronic messages) has turned the pipes into a commodity with very little commercial value. In fact, he expects long-distance calls to be free in the near future, as the telecom companies move into the applications that use their pipes in order to create value for their shareholders. Because Oasis is already in the application game, it feels it can help the telecoms join in.

"We always have new products," says Dimitri. "We're very, very focussed, like every other company, on the Internet, so we're putting out a series of Internet products to help our customers deal with that." Despite the pressure to find the right kind of people to make this happen, Oasis is remarkably cautious. Technical people have to pass a five-hour test before they are hired and they then embark on an eight-month training program. After three weeks of formal classroom training, the new employees go through a baptism of fire under the watchful eye of a "mentoring partner": they are put onto a job that is extremely difficult.

At a Glance

1999 sales	$30 million
Average annual growth rate – 1992/1999	
Sales	71%
Average annual growth rate – 1992/1999	
Employment	75%
Percentage of 1999 sales in:	
Exports	100%
R&D	20%

"We gauge how well he performs," says Dimitri, "and see how we can teach him to do more." Oasis has experimented widely with different approaches to hiring and the current 7% staff turnover rate indicates they have found something that works well for them.

Dimitri describes his leadership style as chaotic. "I do well with chaos as opposed to structure," he says. "I throw a whole bunch of stuff out to see what sticks, then do that." But, like all successful leaders, he does not have just one style. "There are times when I have to be charismatic, other times when I have to coach; there are times when I have to make key decisions or somebody else makes them for you. But in general my success has been my ability to absorb and deal with chaos and to help others do that, because that's what we face mainly. It's good for any fast-growth company."

There's one area, however, where Dimitri is never chaotic, and that is customer contact. Oasis has about 150 customers now and he sees every single one at least once a year. "I believe that people buy from people," he says. "They don't buy from companies. They'll buy from me and not from some nameless CEO who's sitting here."

Dimitri spends about half his time with customers and the other half making things happen internally. He does not keep track of industry developments through networking. He has hired a person whose sole job is competitive intelligence, which she acquires mostly from the Internet and from attending industry conferences. Even then, the most important source of ideas for Oasis' future development comes from customers, partners and its own research staff. Dimitri instituted a board of directors for the first time at the end of last year and he plans to set up an advisory board of industry insiders (including some customers) soon. The board of directors was mainly a response to the needs of the investors who bought $50 million worth of Oasis stock last year and the board of advisors is intended to provide Oasis with a sharper assessment of emerging customer needs.

At the centre of everything, however, is his partnership with Sunny Siu. They are both software engineers, but they fill very different roles in Oasis. "I've never had a better working relationship with a human being than I have with Sunny," says Dimitri. "We have never fought once in the ten years we've been together. Sunny is very much a technologist and doesn't enjoy going out to meet people, I, on the other hand, love to go out and talk and interact, so it's been a nice split from that perspective." Both Dimitri and Siu felt they've only just begun. Says Dimitri: "The potential is unlimited for what we do. It's fantastic."

CHAPTER 1

The path to growth

In a panel session, two of Ontario's most dynamic CEOs discussed their perspectives on the issues that were considered paramount by leading growth firms in the survey of growth firms conducted by Statistics Canada and analysed by Deloitte & Touche for the Ministry of Economic Development & Trade. The panel was moderated by Peter Bowie, Chairman of Deloitte & Touche. The panellists were Jim Balsillie, Chairman & Co-CEO of Research in Motion Ltd. and Paul Godin, Founder & Chairman of Bid.Com International Inc.

- Key Challenges 15
- Capitalization 17
- Delegation 19
- Customer Contact 21

THE WISDOM Exchange

Paul Godin, Founder and Chairman, Bid.Com International Inc.; Jim Balsillie, Chairman and Co-CEO of Research in Motion Ltd.; Al Palladini, Minister, Economic Development and Trade; Peter Bowie, Chairman of Deloitte & Touche *(from left to right).*

Peter Bowie: The single biggest challenge for Ontario's leading growth firms has been hiring and retaining key employees. It might come as a surprise to many of you, but financial management doesn't seem to be a particular issue for Ontario's leading growth firms. The vast majority of CEOs in the survey believed they had a fairly sophisticated measurement system that gave them a timely and accurate measure of their situation. Likewise, many entrepreneurs would conclude that access to capital is a problem – exacerbated in the case of growth firms. But the CEOs in our survey did not agree. They ranked "access to capital" as a relatively minor challenge. It may not be easy to raise, but they know where to get it.

One area where CEOs see a real challenge for themselves is visioning and strategic thinking. It is more difficult to predict long-range thinking when you are growing rapidly and trying to find the right balance between consistency of purpose and the rapid pace of the marketplace. Which leads back to the greatest challenge – hiring and retaining people.

Paul Godin: Without question, if you don't have the right people, it is not going to work. You can have the greatest ideas but if you don't have the support of good employees, it is pretty hard to get things moving. One of the areas we have devoted a lot of time to is the understanding of compensation. How to hire, maintain and train people because, as you know, it is extremely costly to flip staff, particularly on the engineering side. We always hunt for talent and we find talent in the oddest places. We are currently looking for six engineers because of all the projects we have started in Asia and they are not very easy to come by. We have a need to set up a forum to discuss what, as businessmen in Ontario, are our needs going to be on the technology side. Finding and retaining people is extremely complex. It is our number one priority.

Jim Balsillie: It's certainly the same with our business. Our approach is that we are trying to grow our talent. We work closely with the schools and like to find young people and open structures to share the environment and the success. You share the success and invest in the tools they need. It requires capital. The best way to bring in talent and bright young people is to grow your own. You don't need a long CV to have potential.

Peter Bowie: What is causing this shortage? And can anything be done about it? Is the brain drain real?

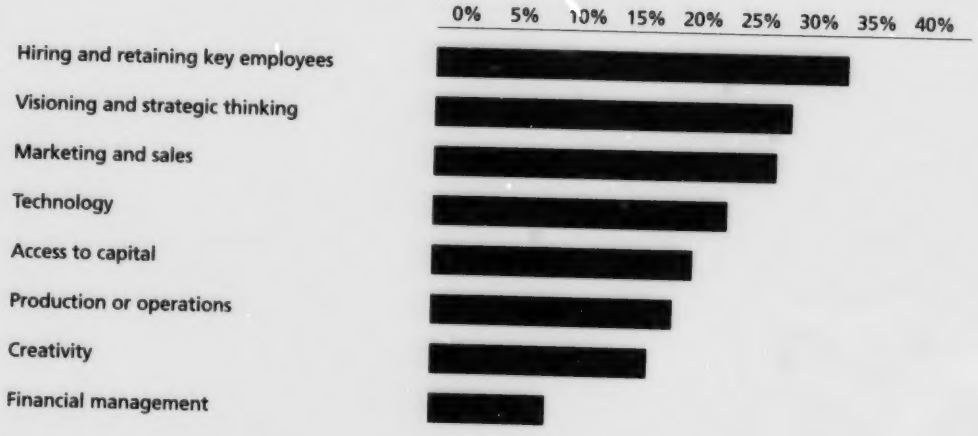
Paul Godin: I think the main cause is growth. What we are seeing here is some shortages in specific areas. The brain drain hasn't affected us because we are very protective of our people. Part of our engineering team deals with a specific area called "streaming video," which is the new thing on the Internet, driven by the convergence of the Internet and television. Our new partner in the US is NBC and they have literally tried, through their contract with us, to hire our engineering team and move them into the States to help them build out that resource. So they are seeing it there as well. So whether or not there is a drain, I can tell you that in the US they are feeling the same thing because of the growth in the areas we are involved in and the speed with which the technology is accelerating.

Jim Balsillie: I think that, public policy-wise, we are late in recognizing the way the world is shifting and we should have been training people in certain areas. Now they have a few programs that deal with it, but I think the nub of it is training and directing people into specific areas where people need to be. So growth, coupled with a mismatch in the allocation of resources, has created a pinch. I think everyone is reacting to it now because it is so urgent and it is so pressing.

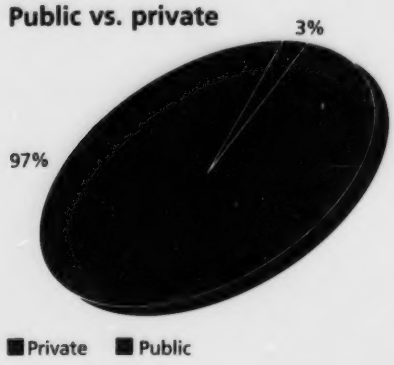
As for the brain drain, there is no doubt there is one. It is a one-way door. It is extremely rare to see people come back when they go. Our approach is to really cultivate them when they are young and have compensation structures to keep them. But once someone is gone, it is extraordinarily hard for them to come back. They are always thinking of what they are giving up. They are not thinking of the intangibles they get. That being said, I think the relaxed immigration has helped a lot for RIM, because we get a lot of technical people from Europe, the mid-East and Asia who are technically very strong; they have really driven our engineering, so that is our counter-balance.

However, in our kind of business, the top strata of talent really has a disproportionate effect. When people say they have only lost x% of our trained people, it is like sports or arts – it is the top 2% that you count on disproportionately to drive the program and I think that the numbers don't tell the real story. It is the quality and not so much the quantity that hurts. It is a one-way door, which is what I don't like. I just can't think of one person who has come back.

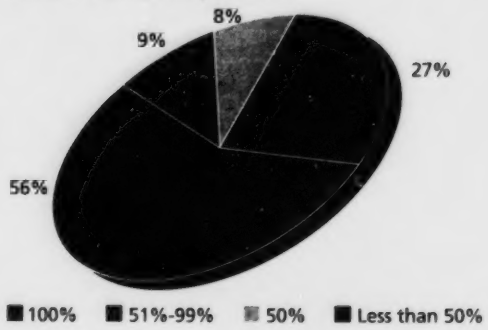
Greatest challenges of leading growth firms



Public vs. private



CEO's ownership stake



Peter Bowie: In these charts, we see that, despite the need for capitalized growth, CEOs are retaining personal control of the organizations: more than 80% of the leading growth companies are majority-owned by the CEOs. This is obviously partly due to the size and stage of many of the companies but it also indicates, I would think, a clear preference for control. Interestingly, only 3% of the growth firms in the province are public companies. Certainly, it is a big step to go public and the CEOs whom we interviewed clearly understood the pluses and minuses of going public, so they made a conscious decision not to do so. Both our panellists took this step. Why do you think so few of the companies are taking this route? And what drove you to go public?

Jim Balsillie: Well, it is lonely being a public company, but you eat well. Fundamentally, in a technology business, you need capital to grow. There is no other way. I think the idea that anyone thinks they are in control of their business is a bit of a ruse. You really are not in control of much anymore. You are trying to hold on. A bunch of votes doesn't protect you. Our only chance is to move quickly and accelerate aggressively. Going public is a tool that allows you to take risks; it is a tool that allows you to have the currency to expand and acquire; it is tool to attract and retain people. Capital markets are a tool and it is no greater hassle to appease the capital market than it is to appease a banker – all you're doing is updating and it is no greater task. I think that one good piece of advice is to retain good advisors. It makes a material difference in the process if you have a good CFO and don't try anything cute. It is like building a house: stick to the fundamentals, do it bit-by-bit. Show up clean-shaven and say what you have to say and hope for the best.

Paul Godin: As a graduate of MIT (which stands for "Mistakes I've Tried"), I can tell you that going public was the hardest decision we had to make in the last five years. Jim's points are well taken, but we built our company with angel investors and then we did a reverse take-over of a shell company on the Canadian Dealers Network; then we did three raise-ups with securities companies in Canada and London, England. We then ended up on the TSE, then the TSE 300, then the NASDAQ and tonight I am closing another financing deal with a Canadian underwriter.

What happens is that you end up running two businesses. You end up being operationally involved in your core business and you end up running the public entity, which is a ravaging animal, always hungry and always looking for answers. You have shareholders, investors and outside directors looking for news and more input. You have to be prepared from a time-management standpoint, if you are considering going public. Yes, it is important if you have high expectations about rapid growth and accelerating into markets, because you see an opportunity and windows are closing, but on the other hand, you must understand that if you intend to list on markets like the TSE and NASDAQ,

you had better be prepared to hire very good people. A lot of my day – typically 50% - 70% – is not involved in operations anymore. It is spent mainly dealing with the entity that is the public company. That is the biggest challenge people have to face when they make the decision to go public. You really are going to have to look at time management.

To Jim's point, if you are looking to going public, it is critical that you really have good advisors, people who have been there and done it and know how the public markets work. And certainly, from a regulatory standpoint, don't go into the gray areas. Keep it black and white because you are going to be challenged.

Jim Balsillie: We are studies in contrast. We were growing very well and we wanted more money to grow, so we said: "Please give us some money." It was very different from Paul's process of different shells and different acquisitions. You can do it in a more complex way which allows you to get at different vehicles, which I am sure are very legitimate, or you can just say that you want capital. If you get a good CFO and you do it, I would argue that you don't need to shift so much of your day toward the capital markets, except when you are on a road show where you are trying to secure more capital. I spend 15% of my time on capital markets and I still allocate 80%+ to the business – deals and people – and I refuse to let go of that.

Peter Bowie: You are both cross-listed on the TSE and NASDAQ. What was the driver for that decision?

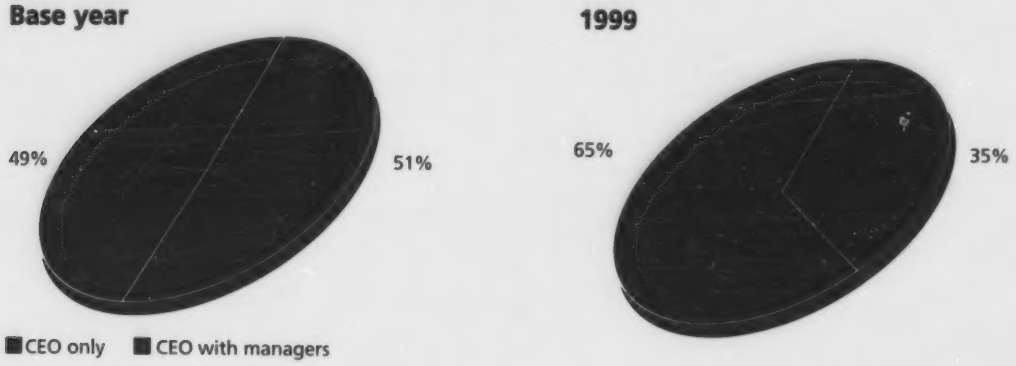
Paul Godin: It is strictly for access to US capital markets – access to research analysts, being able to tell our story to a broader market. Ninety percent of our revenues come from the US marketplace so it was imperative that we build a presence there.

Jim Balsillie: We are not aggressive in our dealings with the fund managers and the investors, but we are quite aggressive with the relationship with the brokers. I think that is important – you really have to take control of the process, because everyone has an agenda. Our approach was to do a special warrant financing, which was the biggest at the time for a tech company in Canada. It is really a cheater's IPO; that's what I call it. You agree to clear a prospectus after you get the money but you don't have to list. And then when we IPO'd on the TSE, we involved a couple of US underwriters; I call that a cheater's NASDAQ. That allows you to warm up your institutional base in the US and warm up your brokerage base in the US without having to go to all the different cities and different brokerage houses, which can be a fickle environment.

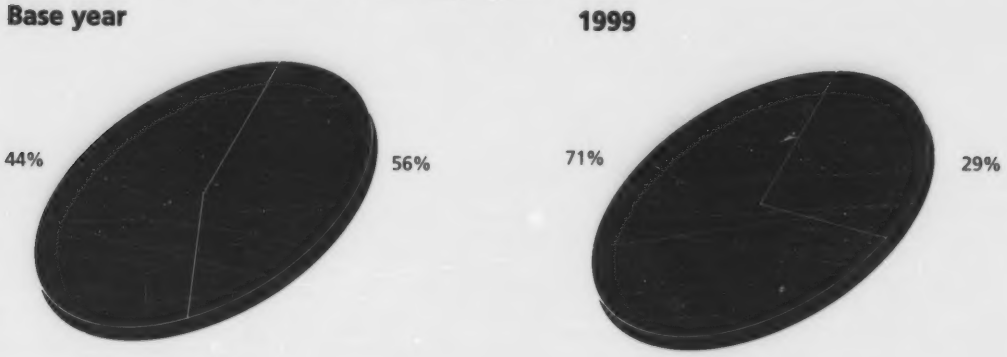
We then listed on the NASDAQ and said to the analysts and brokers: "OK, if you prove your mettle, you'll be there when we next finance, but I am not going to hang myself out until I think you are good." Now we are financing with them because they proved themselves, so our approach has been that we get the bed warmed up before we jump into it, because I am afraid of things that I don't know. Like Paul said, it is such a big base in the US and so specialized, it really does move markets. They are relatively aggressive on providing capital strategically and valuing you and you are foolish to ignore it. You are also foolish to run headlong into it and into all that tension.

In order to gain a sense of how leadership styles change as a company grows, the survey of CEOs of leading growth firms introduced the concept of a "base year", which is defined as the year when the CEOs leadership style was most recently one level below its current level. This enabled comparisons to be made between the old and the new leadership style as well as how the CEO made the transition.

Decisions on entry into new markets



Decisions on new product development



Peter Bowie: Our survey asked the CEOs to identify how they had changed their leadership styles in the course of growing their companies. Roughly half of them had not changed at all while the other half had made some big changes.

The graphic shows how they replied when asked who was responsible for making decisions in some of the key areas and how that differs from the way they made those decisions earlier in their growth curve (defined by their base year). The most important strategic decisions we looked at were entry into new markets and new product development. In the base year, about half the CEOs essentially made these decisions on their own, but by the time the survey was conducted two thirds or more were asking their senior managers to play a bigger role.

Entering new markets is the biggest indicator of changes in leadership style. Everyone feels delegation is great, but very few find it easy to do. When you start a business from scratch you are involved in every aspect of the business. In our interviews with the CEOs, virtually all of them said it was somewhat painful having to adopt a hands-off role in running the business. We are interested in how our panellists changed their style.

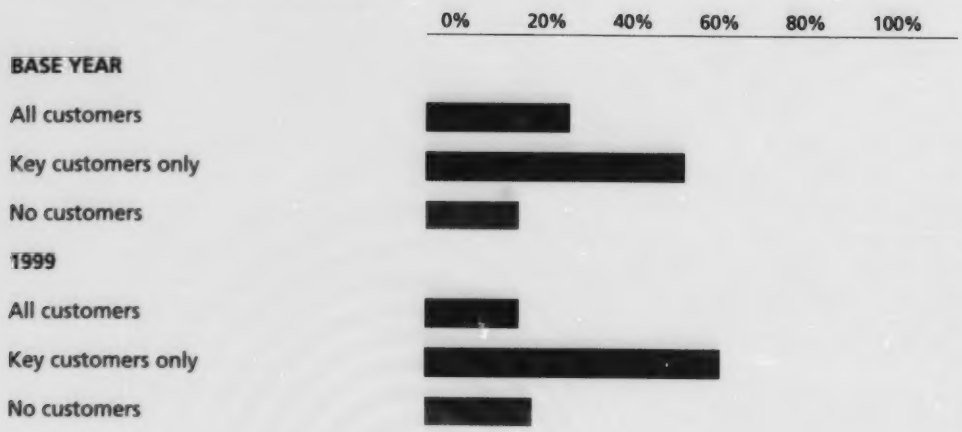
Paul Godin: I used to make 100% of the strategic, design and product decisions and now I make fewer than 10% of them. However, I did spend a lot of time on finding the right people to build an infrastructure under me so that I could effectively delegate. The hardest thing I found – as somebody who built this up from a sketch on the back of a napkin – was really letting other people have the authority and responsibility. In the end, if I had not become used to the idea and started to adapt and mature my thinking, we would not have seen the growth that we have enjoyed, because I would be so down in the muck and mire just trying to be operational.

I have been fortunate in that I have built an infrastructure. I am Chairman and I have a CEO. I have an Executive Board, a Board of Directors and I have a very fine CFO and his accounting group. That now leaves me free to travel the world, opening new offices and building new partnerships and alliances. That is the future of the company. That's the growth and that is where we are going to share in the long-term viability of this project. It was difficult to do and I certainly understand and sympathize with those of you in the audience who have your own businesses and are having trouble with delegation, because it is not an easy thing to let part of your baby go. But at the end of the day, you have to.

Jim Balsillie: We are a study in contrast. At Research in Motion, we were kind of born in partnership. My partner and I share co-CEO duties and we have a head of operations. The partnership was born in the core competencies of the people and if I had one strength, it is that I am aware of what I am good at and I stay away from things I am not interested in. I haven't changed much. We have brought more people into the partnership and the element of partnership and capital is powerful, but I don't think I have changed that much and I don't want to change very much. I stay very close to the deals, the strategies and the capital markets and very close to the people and I think I am good at it. I stay out of technology and operations. I trust the people, and they deal with things, but they know I want to know.

Paul Godin: I still retain control over strategies, corporate alliances, capital markets and financing which are probably the four main areas. I have a hand in the high-level executive hires but I am mainly removed from day-to-day operations and technology.

CEO's personal contacts



Peter Bowie: The last area we are going to explore is the nature of the contact that CEOs have with their customers compared to earlier years in their growth cycle.

In order to make sure of transition to a customer-focussed organization, CEOs continuously foster a culture of client service in their organizations and that's a challenge for all organizations, irrespective of size. I suspect it has been no different for our panellists.

Jim Balsillie: I try to map a bunch of relationships between the company and the customer who works with us, so that the relationship is not centred on one person. It is evenly distributed, so that when you meet them, you are aware of their business, you are supportive of their business and you are there to resolve issues. CEOs shouldn't try to funnel control through themselves. You map in different people. Also this means you are able to delegate.

There is no question that we focus on a set of key customers. I am fortunate in that I have an excellent partner so we can hot-swap and keep in close sync. But I also try to keep close to the alliances and the customers because it makes me aware. It makes me better at what I do and, knowing their business, I am better at the capital markets. It is really dangerous when you get too far from the front line. It is extremely dangerous.

Paul Godin: We have two divisions; one is Bid.Com where we deal with individuals, but the other one, which is hidden from most people, is actually the largest: it is an industrial-strength business where we sell everything from used car parts to caterpillars. On the industrial side, I am literally in touch with those key partners a couple of times a month. On the consumer side, a couple of times a year we bring in a cross-section of consumers and users from across North America for two days in our offices in Tampa. We do a lot of surveying and find out what the consumer groups are saying. That keeps me pretty much in tune. I just have to look at sales. At the end of a day, if I want to know what we are doing with the consumer products group, I just have to ask the CFO what the sales were yesterday.

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Strategy

CHAPTER 2

This chapter and the two that follow illustrate how CEO's and presidents grapple with the issues of moving their companies through the various stages of growth and how this evolution forces them to change their own leadership styles. In this chapter we have gathered the highlights of their "macro" observations on how to develop strategy, approach organizational issues and establish an appropriate relationship with customers. In the following two chapters, the participants have their say on the process of managing rapid growth and dealing with the multitude of people issues that preoccupy most of their companies.

Some of the observations and suggestions are contradictory. What is good for the goose is not necessarily good for the gander!
The participants describe what worked for them – readers must pick and choose what will work in their specific circumstances.

- Strategy 24
- Partnership 25
- Organizational Issues 26
- Customer Issues 28

THE WISDOM Exchange

Strategy

Companies that grow fast need reference points to counter the centrifugal forces involved in rapid growth. These reference points take the form of strategic priorities that underpin the company's vision of the future, preferably using a team approach that spreads the strategic thinking throughout the company.

Challenges	Solutions
Cultivating strategic thinking	• Read books such as "Built to Last" – it helps to formulate thinking • Thinking in advance means you have at least half a plan to deal with a problem if it emerges
Establishing strategic priorities and key issues	• There has been a paradigm shift from "knowledge is power" to "sharing knowledge is power" • Ask: "What would cause me to go out of business?" • Assess what would happen if your firm were to lose its biggest customers and/or key employees — does it mean "no bonus" or "need job" (i.e. how deep is issue?) • Imagine what *Globe & Mail* headlines would scare you • Get a good balance between R&D and profitability – shareholders want profitability but to further the business, you need to spend the 'profit' on R&D • Understand the impact of the Internet on your business
Selecting the right opportunities to position yourself best for the long term	• Pick core competency and develop it to its fullest potential. Do not try to be all things to all people • Gain recognition within your market for your brand • As companies grow, make sure you do not lose sight of what it is that made you successful
Defining your market and setting a target market share	• It is essential to define your market. Your business plan should be based on target market shares • Who cares about market share? You sell as much as you can sell to as many people who will buy • The most effective way to be profitable is to be the dominant player in your market • Put your efforts toward the market that is best for your company – what's important is understanding the opportunity; it's not necessary to be dominant • Create a new market
Finding an effective team-based process for developing strategy	• Always have preset objectives and an agenda • It is often worth while to get away to a different place • Strategic planning sessions should be spread out – 1 day this week, 1 day next week, 2½ days over 3 weeks, etc.

Partnership

One of the key decisions in setting a strategy is whether or not to take on partners. Many people have had bad experiences with partnerships; for many others, it has been a life saver. Part of the dilemma is knowing whether a competitive or a collaborative approach is more comfortable for the individual CEO – although it is important to observe that strategic alliances and partnerships are increasingly being viewed as the only way to go. There are advantages and disadvantages to adopting partners – but when a CEO enters into a partnership with all the appropriate precautions and awareness, the risk of its ever going sour is significantly reduced. (Chapter 6 contains a discussion of alliances and mergers in much greater depth.)

Challenges	Solutions
What to look for in a partnership agreement	• Be careful to manage overlap • Seek out complementary cultures • Take a long-term view of the relationship; it takes time • The partnership should support your growth strategy
Advantages of taking on partners	• It ensures that key senior managers have an ongoing involvement • It enhances name recognition • It offers opportunities for technical support and training • It brings in sales leads and revenue opportunities • For small firms, partners fill gaps in their portfolio or infrastructure • It offers valuable insights into the partner's business
Disadvantages	• The relationship is with people, not just the company, and people can be challenging • A partner eliminates the internal champion or expert in the area where the partner is strongest • It is not always easy to understand how people are measured in the other organization • There may not always be alignment in the purpose and tactics of the organizations in the partnership • There is a potential loss of competitive information

Strategy

Companies that grow fast need reference points to counter the centrifugal forces involved in rapid growth. These reference points take the form of strategic priorities that underpin the company's vision of the future, preferably using a team approach that spreads the strategic thinking throughout the company.

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Organizational Issues

As companies grow, they need a degree of process to avoid re-inventing the wheel every year or two. That means developing an infrastructure whereby people know automatically what to do in the many situations that do not require strategic consideration. It also means developing a structure of advisors and management information systems to ensure adequate input for good decisions.

Challenges	Solutions
Keeping the organizational infrastructure in tune with an expanding company	• You are managing two things: operations and infrastructure. "We hired 6 engineers but only had 5 offices! Little things like that" • Internal systems are easier when you are smaller • Draw an organization chart of the company in three and five years. Then draw where it will be in one year. This highlights the needed abilities, responsibilities and new positions. It sets expectations in the employees' mind • Hire people whose sole job is managing processes in the organization. Working with people like this provides a learning experience
Finding the right balance between the dysfunction of no process and the burden of red tape, between creativity and consistency	• Procedures are not an issue – you have to have them • Ensure proper training for whatever procedures are installed • The key to designing good procedures is consistency in performance and precise delivery standards • Use committees – or teams – to set up procedures in marketing, hiring, billing, etc. It gets buy-in • Procedures require personnel stability • Devise systems that make use of what's in people's heads. It is a dynamic and changing process • Deal decisively with new people who bring procedures from their last jobs that may conflict with yours • We all have cowboys. They are: - great inventors - rarely-seen phantoms - generally techies, with different lifestyles • In customer management, control your cowboys! Specific rules and regulations must be followed • When procedures go wrong, it is either: - a procedure that is not people-oriented, or - a personnel problem

Challenges	Solutions

The best way to structure advisors – e.g. a board of directors or advisors	• The best directors are people who will:
	  - provide assistance
	  - raise real issues and follow them up at the next meeting
	  - provide a balance, including your lawyer, accountant and another entrepreneur
	• Hold regular meetings
	• Boards are useful for private companies. They:
	  - provide good practice for the possibility of going public
	  - reinforce the necessity for a business plan
	• Most boards pay their directors, but not all
	• Informal boards, with no legal status, can still furnish ideas They should have at least one outside member
	• Keep them small
	• Good mentors challenge everything
	  - Mentors and professionals sometimes don't know your business well enough to be effective. An alternative is to use business magazines as a guide and then follow up with the authors on articles of particular relevance or interest

Getting the right Management Information System	• A good project manager is key for implementation • Get a reference from a current customer before buying any MIS software or hardware • Look at the reseller/implementer, not just the manufacturer • Implementation and training is very important

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Customer Issues

The CEOs of fast-growing companies all have a fierce focus on their customers and they craft their own organization to ensure they meet their customers' needs

Challenges	Solutions
Building customer satisfaction	• Have focus groups for customers – done by outside consultants • Use survey to determine what needs to be done - Even when the company grows, CEOs should continue their personal relationships with key accounts
Fashioning effective customer service	• Segment the market • Focus on personal relationships instead of mass-marketing • Ensure that information is readily available • Hold client appreciation events • Scientific education does not teach customer relationships or the functioning of markets - Use performance bonuses to improve customer relations with technical staff • Don't focus on sales techniques: concentrate on serving the customer • Use co-account advisors • Develop corporate values such as "Customer First"

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Wanda Dorosz, President & CEO
Contact either Stephen Li or Richard Dole at 416-971-6998 Fax: 416-971-5955
www.quorum.ca

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Amgad Shehata, Director of Marketing & Public Relations

CHAPTER 3

Managing growth

All the challenges and obstacles of leading a firm are magnified when the firm is growing rapidly. There is heightened pressure to constantly change and innovate in every aspect of managing – from planning, to financing, to managing people who often have difficulty dealing with volatile circumstances. The cumulative effect of changes on every front represents an extraordinarily difficult challenge for CEOs who are forced to adapt their own style of leadership to a frequently evolving structure.

- Planning and Pacing 31
- Financing 33
- Acquisitions 34
- Leading the Growth Process 35
- Changes in the CEO's Style 37
- Executive Scalability 39
- Employee and Culture Changes 40
- Team Building 42

THE WISDOM Exchange

Planning and Pacing

Sometimes companies grow by themselves; no-one makes a decision to grow, it just happens. That might be labelled "market pull". Other companies aim for fast growth from day one, usually because the CEO's attitude and goals drive the process. Either way, once the roller coaster has started rolling, the growth has to be expertly managed, or the company will implode. This has to start in the CEO's office, where many competing priorities have to be balanced. Among the important trade-offs is the choice between, on the one hand, accepting the growth rate dictated by the market and striving to adjust the company's management to keep pace or, on the other hand, controlling the growth rate to conform to the management systems in place.

Challenges	Solutions
Developing a rationale for the commitment to rapid growth. Why are we doing this?	• Obviously the reason we are all in business is to make a profit – that is the reason we exist • Growth is a survival mechanism – it allows you to withstand things like the Asian flu • "If you don't grow, you die" • You grow to get to the next level. You must continue to strive for that next plateau, and never become complacent • Rapid growth is not always controllable • Success often pushes growth • Clients can also push a company to grow • You can't grow indiscriminately. You have to decide what kind of growth you want • You can manage growth – with the right people • Explosive growth is not a good idea, because of the profitability issue
Deciding how much time a CEO should spend on managing the process of growth	• 100% on growth-related issues • Well over 50% • Cultural differences (between the US and Canada) take up valuable time • Time zones waste a lot of time • It becomes a compromise – what's on fire? • You have to spend time on relationships
Defining the key strategic elements in managing rapid growth	• Understand explicitly where your opportunities for success are • Develop an annual plan: What are your goals? It provides a roadmap and a destination • Bring in external advisers to prepare the plan • Determine where you are going to focus your resources for growth • Planning is not the hard part – execution is • Determine your core business • Prepare for a building year (probably a loss year) with high capital expenditures, etc. • If you want to expand, choose to compete in world markets – Canadian companies should be able to compete

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Challenges	Solutions
	• The US has an open market • R&D costs less in Canada than the US • Target your marketing – get the right people coming to you • Don't compromise quality
Working with goals and targets	• You have to have a goal, and an understanding of where you see your organization relative to the market. Where do you want to be in the market? Where can we win? • Keep your focus on an external goal. Everyone must know the goal and be focussed on its attainment • Use benchmarks (preferably quarterly) - You require key "metrics", which are your organization's measurements. It allows all employees to focus on the goal. Without metrics, you don't have a goal and will not be focussed - Identify key business drivers – a few easily-understood measures of progress toward your goals - Align the benchmarks with the strategic vision • Everyone in your organization needs to understand what the opportunities are and how to capitalize on them. Don't be afraid to communicate to your employees the strategy and the growth targets; it will breed loyalty
Identifying what it takes to initiate and sustain rapid growth	• You must be able to deliver!! Everyone must know their role in delivering the product to market. If you can't deliver, get out of the game • Longevity and growth may be premised on creating an enduring culture or a set of company values (eg. HP, Disney, IBM) • Learn from others' growth patterns • Rapid growth depends on the people you have working for you: - Hiring the right people and retaining them (turnover usually means the wrong people were hired in the beginning) - Finding people is extremely difficult – we must stop the drain of IT people to the US

Financing

There cannot be high growth without adequate capitalization, so the CEOs at the Wisdom Exchange sessions had financing on their minds. However, few of them were concerned in the sense that they felt they might not be able to raise the capital they needed; they know what has to be done and their focus is on managing the circumstances that face them, no matter how little they like them. Some of them accepted a slower growth rate because they did not want to make the trade-offs required to raise the capital they needed. Mostly, however, their focus was on understanding the rules of raising capital and turning them to their own advantage to as great a degree as possible.

Challenges	Solutions
Getting the approach right for raising capital	• Have good information on the company, including a sound business plan • Use advisors to help find capital
Using venture capital companies	• It is not a problem finding money with venture capitalists • Financiers should look at the strategic position of the company instead of just protecting their investment
Using public markets	• Most suggested they want to stay private and not public - "I don't want 50 partners" • One CEO started out as a public company, but felt this was, perhaps, not a good idea: - It involved considerable dilution of equity to start with - It was difficult to raise further funding - There was enormous pressure to keep the stock price high • Raising money in public markets is time consuming – shareholders are always on the phone - a viable alternative is to do a private placement with an "angel" • It is vital to communicate the vision to investors • Ally yourself with power • Raise money through special warrants: - Go to an investor for a private placement, then do a prospectus, then sell the warrants
Ensuring a good relationship with the banks	• Fast growth is tough for bankers, they don't want risk • Banks have accommodated growth to a greater extent in recent years • The bank account manager is key. They must be knowledgeable - The rapid turnover of account managers is a problem - Your account manager should be your champion within the bank and should understand and support your business • A change in a bank's policy can affect the availability of financing • Work at having a good relationship with your banker - "It was a very difficult relationship at first" - Come up with a formula for how the bank looks at your business - Use the bank's leasing facility

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Acquisitions

One of the most common ways of growing is by acquiring existing companies, especially once a company has built its fundamental infrastructure and culture. However, the acquired companies often clash with this culture – meaning the acquisition targets must be carefully selected and the merging of the two organizations meticulously planned and executed.

Challenges	Solutions
Weighing the advisability of making an acquisition	• Advantages - It provides new revenue drivers - A successful acquisition maintains the client base - Can give you the local presence you need to service your clients • Disadvantages - It was hell! - There were major cultural differences between the two companies - The technology was different
Finding the right formula to make an acquisition work for you	• You need shared objectives • You need a good corporate lawyer • The tax situation is a potential problem in Canada - Write down R&D expenses or intangibles. You can grandfather this with an acquisition and do it to your advantage - You acquire a lot of goodwill → You have to make a decision on writing off goodwill, which reduces your income and shelters earnings • It is hard to define your own culture, let alone assimilate it with another - The mindsets of companies can be different; how do you get along? - Focus on mission and values, key issues – excellence, commitment to delivery, quality, people caring, empowering • Acquisitions mean resizing - Your capability requirements within the company change with growth and acquisitions
Integrating the people from the two organizations	• Find a fit for employees • Loyalty is important • Deal with the issue of long-term employees who are put in a position of being possibly demoted or being supervised by a new person • Find and keep those who grow with the job • There is a lot of baggage when moving people (emotional upheaval, different processes, etc.) • You must define minimum standards • Superior performance by a company requires good and average people • Firing can cause chaos

Leading the Growth Process

All CEOs can write books about leadership. In this section, they focus on the specific leadership requirements for high-growth companies. While their comments apply to many other situations, they believe that these are the most important areas to focus on in a company that is growing rapidly.

Challenges	Solutions

Planning	• The plan does not make you successful; communicating the company's thinking and vision does
	• Involve your staff in planning and you will have their buy-in later
	  - People who subsequently won't get promoted are more understanding
	• Make sure you go back to basics regularly – take one week a year to give it your full attention
	• Take your management team on a retreat:
	  - Get an outside moderator to run the meeting
	  - As a group, you decide where the company should be going
	  - It gets everyone working on the same page
	• Make sure you secure capital for IT

Defining growth strategies	• We plan to grow by acquisition mostly
	• Our strategy is to grow by getting venture capital
	• We don't have planned growth; we grow by opportunity – without advertising
	• Now we are focussing on growth
	  - We're aiming at achieving manageable growth – 100% a year
	  - We are creating growth mostly by talking with people; we're not doing anything directly

Creating a compelling vision and direction	• The CEO must understand the vision
	• Have a clearly defined focus:
	  - Focus on clients, personnel and markets
	  - It's vital to have a good profit margin
	  - Growth is not the key goal – the quality of the client is
	  - Find potential clients who share our values
	  - We don't push only to maximize profit – lifestyle is also important

Communicating the vision	• Focus more on CEO communication as you grow – the staff needs clear direction • Articulate the corporate culture and values • Ensure there are multiple ongoing touch points • Create a sense of togetherness • It is OK to argue, but do it constructively

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Challenges	Solutions
	• Communication is continuous and in both directions • Technology allows the CEO to be in touch with many people efficiently - The Internet will never replace personal contact

Creating an environment that can sustain high growth rates	• Keep the demands of customers a priority
	• I spend no time on sales – it's all managing people; the culture is good
	  - I spend most of my time on HR, managing people
	  - Avoid burnout
	  - Decentralize to avoid burnout
	  - Beware of high achievers working at home – it results in burnout
	  - Feed enough staff into the process
	• The organizational structure is important in dealing with staff
	  - go with a flat organization
	• Develop a newsletter to send to staff
	• Encourage creative conflict
	• The CEO must be a good listener. People must feel that they can speak their minds
	• Focus on building critical mass:
	  - Develop the management team
	  - Secure the employees' commitment
	  - Create a team culture – listen to Tom Peters
	• Change the corporate culture when necessary
	• Adjust the infrastructure to changes over time
	• Adopt an "ants in the pants" strategy; don't sit still as a culture
	• Strive for balance – have fun

Changes in the CEO's Style

In order to accommodate the changing demands on the organization created by the growth process, the CEO has to lead the company through a number of transitions as it travels the path from an informal to a corporate structure. This requires a corresponding change in the role of the CEO, to accommodate or precipitate the changes in the rest of the organization.

Challenges	Solutions
What it takes to be the leader of a growing organization	• Stay focussed • Love what you do and be passionate about it • You must have creative conceit that lets you take risks; you have to give this time • Walk what you preach • Sharing is important • Trust your instincts • Despite being called successful, many CEOs are worried about not being successful in the future - There is a home port – the key is how to get the boat there!
Reaching outside the company to nurture the growth process	• Get involved in the community - Join a technology group and other similar organizations • Find reliable sources of advice - Find a business advisor – meet weekly for a game of squash - "I have a personal coach who helps to identify and clean up the ceiling of complexity. He helps me to think differently and to delegate. Our sessions involve sharing the problems and solutions of others" - You must practice forced learning. Read: → Books such as *Crossing the Chasm* and *Inside the Tornado* → Magazines such as the *Harvard Business Review* • Foster relationships with other CEOs - Get to know the CEOs of suppliers and customers - Have some strong outside CEOs on your board of directors - Join organizations such as the Innovators Alliance and attend events such as Wisdom Exchange which bring together CEOs from many different sectors two or three times a year - Maintain relationships with former colleagues - Nurture non-competitive alliances with people in the same industry

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Challenges	Solutions
Making the transition from "hands on" to "hands off"	• It is physically impossible to focus on all areas of operations • Make the mind shift from a reactive manager to a proactive planner; this is key to transferring responsibilities and empowering employees • You need to spend extra time to hire or choose motivated and qualified key people • Define upfront your expectations on goals and how performance is evaluated • Define individual responsibilities and do not make decisions for them • Training is imperative but takes time • Responsibilities are not fixed but change with growth; recognize that the best utilization of an individual's skills will change with growth • Expect mistakes – the key is how to handle them • Have two people reporting to you who can replace you – plan for growth • Use professional management for the transition process • Build your company using the public-company model, with a board of directors, etc.
Hiring for delegation	• If you haven't offset your personal weaknesses with your hiring, you will have trouble growing. This requires accurate self-evaluation - Hire a team with skill sets that complement yours – you do not need to hire people like you → Delegate to them, so that you can focus on acquisitions, etc. - If you don't have the soft skills to build an organization, hire someone who does - Hire people with the ability to execute the plan, create an environment – let them do their job - The most difficult experience is to hire someone better than you (perhaps a young engineer with superior engineering skills). As part of the management team, they push you. This could be the most important thing you do - Hiring a CFO is scary: use headhunters – they ask the right questions • Don't underestimate the pain of delegation

Executive Scalability

As the demands on the CEO evolve, the demands on the company's managers change. Sometimes, the existing managers can scale up their skills to meet the new demands, but often the CEO has to bring in new executives with broader management skills. This process must be carefully managed as the business becomes more professional, so that everyone is kept at the same pace of growth.

Challenges	Solutions
Managers become "maxed out" in the face of rapid growth	• You have to plan a process that will create more time for managers • It is important to show managers that there is light at the end of the tunnel; let them know that you know there is a problem, and that you're working on it • You can't ignore the situation for too long, since it impacts morale • The answer, in the end, involves money to deal with workload
Promoting from within	• Good, creative technical people (engineers, for example) sometimes want to go into management, even though they are not suited to the role - Management demands "broad thinking" in multi-faceted jobs, which is very different from the single-minded thinking taught to technical people in university • Assess who among your managers are "scalable", then train them for greater responsibilities - One CEO made the best salesperson a manager of sales, which turned out to be a mistake. In response, the CEO brought in a marketing manager who is all planning (and not firefighting). The impact of this will not be immediate but will be seen 3 months down the road • Off-site meetings to discuss long-term plans may make staff realize that they are not suited for management
Hiring from outside	• You need the right type, and you need key people who meet new needs (e.g. embarking on an ISO program means hiring a detail person) • When hiring new executives, the culture from which they came is often different; they have to acquire the new culture – or you have to change your culture to theirs • A key problem in rapid-growth companies is that the person to whom responsibility is delegated may only have been with the company for a few months

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Employee and Culture Changes

Just as the managers have to change with the growing business, so do employees. This is very demanding on the CEOs and their management teams, as they have to constantly rearrange personnel to fit an evolving culture – or let them go.

Challenges	Solutions
Dealing with changing skill sets required of employees	• Define and redefine required skill sets constantly • Outline company goals and individual goals. It identifies potential problems early • Expect to hire experienced people instead of relying on internal or existing skill sets to meet growing requirements - Employees have to buy in to new senior people - Don't give the new hire any specific responsibilities but a broad mandate to observe, listen to the employees and make changes where necessary – they will then focus on bettering the working environment • Let people gravitate to areas where they can best use their expertise; this may not be the same area they've been in historically
The legacy problem – when the company and the job have outgrown the people	• The best action to be taken depends on the company's ethics, starting from the top • You can keep employees as long as they don't hurt the company and they meet minimum requirements; a growing company creates jobs, so there is room to keep people - It has to be a "win-win" for everyone – the company, the employees and the customers. If any employees are hurting any of these, then you have to let them go - Get professional help for dismissals - Pay employees who don't make the grade 6-12 months' severance - One CEO gave an employee who was also a friend one year's notice and 15 months' severance pay on an annual salary of $80,000 - Use 360-degree evaluation – the employee is evaluated by customers, by peers and by employees above and below - Evaluations are confidential but not anonymous - People want feedback - Performance evaluations may be on paper or not - "A 360-degree evaluation of a new hire after 4 months was so bad I had to let him go. Even if I had wanted to keep him, the other people effectively fired him" - "The staff/customers forced him out, not me"

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Challenges	Solutions
Reinforcing the evolving culture and direction	• One of the biggest problems facing growth companies is indoctrinating enough new people fast enough into the way the firm does business - Adding 4 - 5 new people (doubling the size of a group) makes it difficult for new employees to learn and develop a company culture • Hold monthly half-hour management presentations on a Friday starting around 3:30 - 4:00 p.m. - A monthly meeting demonstrates that they're hearing from you, and it may also reveal a morale issue • Share financial information - 40 people in one company have profit sharing equal to 10% of net earnings. Profit-sharing plans, such as Frank Stronach's Magna International, provide for 10% of net income before tax being shared equally among all employees

Team Building

The nature of rapid growth requires an effective team culture. Only in this way can the rapid evolution of organizational demands be accommodated. However, it requires conscious and active leadership to create a team culture, starting with the organizational structure, progressing through efficient HR procedures and training, all the way to the logistics of a team culture that can cope with changing skill requirements and rapid bonding in the formation of new teams.

Challenges	Solutions
Structuring the organization to encourage teams	• "I generally favour a flat organization, not a hierarchy" • Be flexible – let people operate out of their homes • "I'm trying to create entrepreneurs in business as far as the staff goes" • "I got rid of management; we're going with the team approach; there are no indemnities – people watch out for each other

Keeping a professional eye on employment dynamics	• It's important to have a formal HR function to hire well and keep staff
	  - Frequently some turnover is worthwhile
	  - Design a good compensation package, depending on the type of business
	  - When a personal relationship affects the business (for example, an affair), it's important to communicate formally on the subject with the people involved
	• Focus on creating a better attitude

Providing a good working environment to keep staff	• We try to hire people with good attitude
	• We're dealing with creative people and artists as well as technicians
	  - You have to fulfill everyone's needs – each person is unique
	  - You need to provide intangible benefits
	• The perfect manager has an equal balance between production and quality of life
	• Young people are attracted by the vision
	  - "Everyone here is under 35"
	• Have a tight relationship with your employees – there's no need for profit sharing

Optimizing compensation practices	• Pay them well
	• Profit sharing is important
	  - Give 15% - 20% of profit to all staff
	  - Give weekly, even daily bonuses, based on productivity
	  → Once-a-year bonus in January
	  - "I'm a huge believer in stock options"
	  - If you make a promise, you have to deliver!

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Challenges	Solutions
Training staff	• Educate them • It's important to get functional specialists • Hire people out of school and build the people • They can take whatever courses they want
Matching employee skills to team requirements	• Network for talent • Hire consultants for specific projects (on an interim basis) • Break down the "silo" management that comes from growth; work across divisions or silos by breaking down barriers: - cross-train every day - create project teams - focus on building teams
Giving people an opportunity to form team allegiances	• Hold car rallies with teams from different disciplines • Hold monthly barbeques • Encourage a social committee • Start an internal "service hero" program • Keep track of important celebrations – such as birthdays and kids • Encourage employee involvement in outside charitable organizations – for example, United Way • Hold golf tournaments

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As a proud sponsor of the Wisdom Exchange since 1993, Bank of Montreal is pleased to support a venue that fosters new ideas and relationships. Innovative, dynamic and rapidly expanding businesses face unique and demanding challenges, and the sharing of best practices and other views within a peer group environment is an excellent way of generating practical solutions. Bank of Montreal remains committed to the development and growth of Canadian business and offers a full suite of highly competitive products and services to help you achieve your goals.

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Canada Trust Tower, BCE Place, 161 Bay Street, Suite 4220 , Toronto, Ontario M5J 2S1
Scott Fowler (416) 594-9018. Sfowler@orendacf.com
Dan Lioutas (416) 594-3424. dlioutas@orendacf.com
Website: http://www.orendacf.com

People

CHAPTER 4

With the lure of career opportunities to the south, by far the biggest challenge facing the CEOs of leading growth firms in Ontario is hiring and retaining the kind of employees they need to sustain their growth. In response, these CEOs have evolved a remarkably innovative approach to meeting the challenge. It is a matter of knowing when to keep it informal and when to establish systems and of customizing your approach to the needs and goals of individual employees.

- The HR Function 46
- Hiring 47
- Motivating and Retaining Employees 51
- Compensation 53
- Soft Skills 55
- Succession Planning 56

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micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

The HR Function

The HR function is a tool to attract and retain staff. A company may need a department, or it may be better off without one. Either way, it is important to be aware that the function needs to be taken care of.

Challenges

Building an HR department and integrating it into the rest of the business

Solutions

- Instill in managers respect for people. Once you put in an HR department, you may lose this culture
- You require a strong HR function to provide focus
  - The organization must support the needs and goals of employees
  - Plan 3 - 4 years ahead in terms of employee needs
  - Provide CARE management:
    - → Clear Direction and Clear Support
    - → Adequate and Appropriate Training
    - → Recognition and Reward
    - → Empathy
  - Treat employees with fairness and honesty
    - → This process must be managed
- As you grow, you need HR to take care of the necessary day-to-day tasks
  - "We tried to introduce up-to-date practices for payroll but had trouble managing the process"
- When you start an HR department, hire professionals
  - Outsourcing is best, however, do not do this until you really know what you want
  - One person in charge of HR is also responsible for quality management and management meetings
- HR is a tactic. At the CEO level, know what people will need three years from now

Hiring

Growth firms are forced to do a lot of hiring as they expand. The process has a powerful impact on the employees they already have as well as on the new hires, so it demands thoughtful planning and the development of clear philosophies and strategies. It is equally important to find ways of developing access to the best people and to make the firm attractive to them once they have been found. Finally, in the process of making the best selection from the available talent, these CEOs have accumulated a lot of creative approaches that work well for them.

Challenges	Solutions
Knowing when to hire within and when to bring in new people	• Internal postings are good psychologically for all staff • Sometimes the best person for a position would be a new hire but you have an internal candidate with their heart set on the job • Recruit young people with potential, build internally - "I have a small company – I cannot afford to pay top dollar for an experienced employee. So I build from within. The drawback is that employee turnover is high. Once my employees gain experience, I cannot afford to keep them" • Promote from within if the talent is there or train – you'd be surprised at the hidden talent in your own organization
Planning for new hires	• Try to hire ahead of need • Ask yourself where do you wish to be in year X from now, in terms of staffing • Do you need a controller? You need to review the situation • Prepare a wish list based on your needs • Hire for realignment
Using a professional consultant	• There are lots of professionals out there. One CEO paid $3,000 - $4,000 to a recruiting agency but the candidates they delivered were not qualified - Change agency consultants when one doesn't work out! • You must first know your specific needs before you try to find a fit for a consultant
Hiring strategies	• Hire experience with a team mentality • Recruiting is "like a marriage – you have to work together" • "Hire for attitude, train for skill" (repeated many times) - Hire for a good fit within the company - If the person's skill is perfect, but not their attitude, you will pay later - You need to keep talking to new staff to instil the culture • Hire better people than you

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	• Hire better people than you

Challenges	Solutions
	• It is a good idea to have new blood periodically • Balance your team for productivity • People who are "20-something" see the world as their oyster and will not be motivated by "for-life" hiring; however, this is acceptable, even enticing, for a senior manager. In short, firms need different HR strategies for different types of people • Should you be gender neutral? Sometimes gender differences are dependant on the business • Use an employment agreement with full disclosure for new hires - "Know where you are with employees" - "List the objectives" • Focus on strategic employees, defined by the skill sets that are of central importance to the business - Out-source non-critical skills - If you know who is a strategic employee, you have the ability to shed the right resources when times are tough
Making your firm attractive to the best candidates	• The key motivating factors in hiring are not money - Having a company vision makes it easier to attract staff → Communicate the company's vision - It is crucial for new hires to understand the focus and direction of the company → The key attractions are training, motivating and career development. A company survey showed that only 3% of people cared about compensation - The hierarchy must be communicated - Provide a clear definition of the scope of work
Finding the best sources of good candidates	• Listen to what people are saying. Often someone is asking you for a job without coming right out and saying it • Websites are a good place to advertise • Internal posting is good – including referrals • Use acquisitions to acquire talent • In order to attract technical workers, look to colleges such as DeVry, Seneca and Sheridan - Tapping into their co-op programs is a good way to attract young people with strong technical skills • Non-technical workers can often be found by working with community groups • Do not advertise in the newspaper. It results in too many applicants and information overload

Challenges	Solutions

	• Ask your accountant, lawyer, and/or banker for references
	• Use temp agencies for three-month requirements
	• The human-resource pool in Canada is deficient in specific skill sets
	  - There's a lack of seasoned employees
	  - This requires a commitment to managing cultural diversity

Making the best choices from available candidates	• The three finalists in a competition should be invited to visit the company, given some information on the situation and asked, as a final test, to prepare an action plan to be presented to management • One CEO noted that he sees the three final candidates; however, they have been previously screened by people reporting to the CEO • Bring in clients to interview prospective new people
Using formal testing	• Testing is good – it is not biased • It works for middle-management downwards, but it's best to hire senior positions by recommendation • Tests provide speed and accuracy - Wonderlick or Space Relations or Mechanical Reasoning are all recommended • One participant combines the above measurement tools. About 1 in 100 candidates are hired. The cost is $70-$80 per person but the CEO rates the investment in this rigorous recruitment system as invaluable • Read *The Game of Work* by Charles Cumradt on effective strategies for recruiting and retaining employees
Hiring into senior positions	• Use multi-employee panel for interviewing for a senior position: "People have to buy into your decision when you hire someone, so involve them in the process" • Use your advisory board – their recommendations are built on trust • Some success is reported with headhunters • Headhunters work in "a meat market" • Plug into your network – one CEO hired a CFO by getting a referral from a banker • Managers such as a CFO or general manager can be found by using a headhunter, newspaper ads or poaching from competitors

Challenges	Solutions
	- One CEO hired a consultant to manage the hiring process for a new CFO. The first step was to advertise in the *Toronto Star* and the *Globe and Mail*. The consultant narrowed down the applicants through analysis of resumes and interviews. The two finalists assessed the company and made a presentation to management on what they saw and the changes that they would make if hired. This was a great way to hear the prospective CFO's ideas while gaining peer buy-in - This process costs more money but the results were impressive However, the result could be that nobody is hired – paying for a consultant does not guarantee that someone will be hired
Hiring senior executives from big firms	• Use job descriptions • Have a sound structure in place • Ask these key questions: - Are there differences in culture between big and small companies? - Is the executive capable of transition? Is it a good fit? - Does he have the capability? - Will he adjust to a smaller firm? - When he was hired, was he properly evaluated? • There is a huge pool of experienced managers in the US
Hiring young people	• Use co-op programs • Apprenticeships should start in schools and colleges • How should industry interact with universities to get people with the skills needed in industry (especially scientists)? • Be patient with young employees • Resumes are not useful in getting a job

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20 Victoria Street
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Tel.: (416) 362-5211
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Fax: (416) 362-6161
Email: info@micromedia.on.ca

Motivating and Retaining Employees

Good employees are just as important to retain as they are to hire – and the effort is cumulative, because the better the retention of key employees, the easier it is to hire more good employees. This demands the creation of a good working environment and the development of a climate of trust in the context of a clear and exciting direction for the company. Employees should be given attractive career challenges and opportunities and rewarded appropriately.

Challenges	Solutions

Creating and maintaining a good working environment	• Avoid an unbalanced lifestyle at work
	  - Balance work and family
	  - Make the workplace a fun environment
	  - Provide donuts and coffee daily
	• Have an open environment where information is shared
	  - Have a flat organizational structure
	• Support an active social committee in order to foster a productive work environment; this also reduces employee turnover
	• Have an annual meeting for staff

Creating a climate of trust	• Trust is a top-down thing. "I trust my guys. I do not stand over them"

Keep in touch with employees' views	• Communication with employees is key, but challenging
	  - Perception is reality and you don't always control that
	  - Make sure the communication is interactive
	  - Web-casting is great for on-going communication
	• Employee surveys are valuable, because they facilitate staff feedback and start a dialogue
	  - Out-source employee surveys – you don't want it to be seen as a management tool
	  - They should be done once every six months
	  - Ask how staff feel about their job satisfaction or dissatisfaction
	  - Ask for descriptions of critical events that prompted satisfaction or dissatisfaction
	  - Ask if they thought they made the right decision taking their job
	• Have employees communicate when they are not happy. With the information, you try to find them a new job internally. If this is not possible, help them find a new job externally

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Challenges	Solutions
Giving employees a clear sense of direction within the company	• Create a sense of excitement about the company - Get employees involved in the business plan so that they know the direction the company is moving in - Get operations people to participate in setting goals for themselves • Have staff identify their highest payoff activity and show how it fits in with the company's goals • "We ask key people to set their own goals, then we sit down and put a dollar figure on the goals" • Give employees a consistent vision that does not change every day
Career development	• Employees must feel challenged - They must have a sense of personal purpose • Offer employees rotational opportunities • Design an effective tool for performance measurement - Spend whatever time is necessary on performance reviews • Hire beyond your current needs – and then promote • Make sure you provide training funds for educational upgrading - Create a culture of lifetime learning - Fund MBA courses for key managers - "We have a training program providing 40 hours per person per year. I provide the tools" - Offer a choice of programs for one hour per week – such as ISO, health and safety, etc. - Require employees to pay back part of the cost of training if they leave too quickly - Provide a written policy on training: "I provide a career not just a job"
Developing appropriate reward and celebration events	• Do things that say you care (not necessarily monetary) • Peer recognition is a key part of job satisfaction • Hold conferences or luncheons twice a year to recognize achievements • Provide gifts or gift certificates to motivate people and reward them for hard and dedicated work - Offer Christmas bonuses in the form of commodities (e.g. televisions, stereos) - Do not overdo it • Be consistent with bonuses and profit-sharing plans; this builds trust among your workforce (see next section for more on financial incentives)

Compensation

Obviously a major part of employee satisfaction is their compensation package. For growing firms, this usually entails a variety of incentives, to keep employees motivated and focussed. However, profit sharing is not for everyone – especially as it implies pressure to open the books to all employees. However, there is a great deal of interest among CEOs of growth firms in performance bonuses – without, necessarily, any consensus.

Challenges	Solutions

Creating the right compensation structure for your firm	• Make sure your salaries are competitive
	• The less people earn, the more important cash is
	  - Pay bonuses in cash; they deserve it and want it
	• Beyond 100 employees, it is tough to manage special deals with individuals
	• Put 2% - 5% of salary into employee RRSPs
	• Financial incentives provide excitement – a culture good for growth potential
	  - The key is not to make rewards too regular because they become the standard and lose their intended effect; there is no incentive to work hard
	  - Bonuses should be paid frequently (i.e. every quarter) rather than at the end of the year – this provides a better link of rewards to performance
	  - What happens if you can't pay bonuses next year? What happens in a recession?
	  - Offer deferred bonuses: stay "X" years and you'll receive "Y" dollars
	  - Rewards should be broken down for different employees. The review process is crucial. If possible, the owner should meet with as many employees as possible

Designing effective performance bonuses	• Define performance measures to fit the bonus: for example, shop floor employees should be measured on gross margin and management should be measured on return on net assets
	• Qualitative or subjective evaluation criteria take a lot of time to design and can be unfair. Employees must have confidence in their evaluator
	• When measuring performance, it is important to know the starting point, otherwise it is impossible to know how far a company has progressed
	• Measurement must be consistent with the desired behaviours
	  - Performance pay is easier to measure for management
	  - Measurements must be specific to each employee
	  - Measurements must be quantifiable
	  - Measurables must be understood by employees
	• Designing a good pay-for-performance plan takes time, maybe several years. You must learn from your mistakes

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Challenges	Solutions
Mutually advantageous profit sharing	• Open the books to all staff • Define ahead of time how much profit you're sharing - "I share 15%-22 % of profit depending on my needs for the next fiscal year" - "I pay 10% of after-tax profit" - "20% goes into the pot" - "I provide a flat $150,000-$200,000 for profit sharing" - In a small company, word gets around – how much do you give and who gets it • Deferred profit sharing can be used to build an RRSP plan - Books are not open to staff
Offering equity participation to employees	• It's hard for employees to leave when they own shares and have a piece of the action; they share the growth and the risk • Offering phantom stock is a good long-term motivation

Soft Skills

Possibly the biggest single lack in the training of potential managers in Canada is a facility in the "soft" or social skills required to understand the needs and motivations of employees. CEOs placed great emphasis on helping employees develop a self-image consistent with their employer's view of them.

Challenges	Solutions
Identifying the need for soft skills	• As you expand geographically, managing people becomes more important • If you treat staff with respect and integrity, it will come back • You must teach scientists social (soft) skills internally; universities won't do it • New hires who are older (over 40) may have closed minds to changing cultures
Aligning your firm's assessment of employees with their own self-images	• People with an inaccurate self-image are difficult to communicate with as they see themselves differently than others see them. When this happens, any discussions you have with them tend to alienate them - Bring people in to evaluate the staff's strengths and weaknesses – it helps self-evaluation - Accurate self-assessment allows people to get along better as they realize that it is not a personal conflict, just a personality conflict - Compiling personality profiles is a good idea → *True Colours* offers a half-day course. Personality can be illustrated with four colours: green is for techies, blue is for people who are touchy-feely, gold is for businesslike people and orange denotes creativity → There are similar templates for how people cope with stress - Bring someone in to manage the assessment process so that you can focus on your core product → Define the position, leave the requirements flexible, use a search firm

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Succession Planning

No ambitious leader likes to contemplate succession, but it is an important part of ensuring the longevity of the firm as well as providing a context for the ambitions of key staff.

Challenges	Solutions
Coming to grips with succession planning	• Ask yourself "What would happen to the company if I dropped dead tomorrow?" - A succession plan is necessary: "Plan before you go" - "We are growing now and have no plan; it scares the hell out of me" • If a company has competent functional management, but no one who could take over as CEO, the options at the time of succession are: (1) to sell out (2) to hire a new CEO intentionally (However, either option can be expensive) • Buy term insurance – the insurance goes to paying off the debt when you're bought out - "What do I not give the government?"
Selecting the best person to take over from you	• The CEOs of "built-to-last" companies are best succeeded by someone from within who is already indoctrinated into the culture of the company • Put in a good team with a strong # 2 - As a sole proprietor get a good manager - Do not give away so much control that you can not make any decisions • It's important to bring in the right people whether or not they are family - Do you want family in business? • You need outside expertise – hire a consultant and go with the best person

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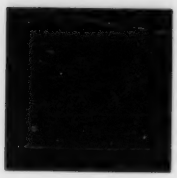

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Brian Conrad, Manager, Operations (416) 954-5429 F: (416) 954-5009
Simone Desjardins, Sr. V.P. & Area Manager, Toronto (416) 952-1626

CHAPTER 5

Managing hypergrowth

Three panellists give their points of view on what it takes to manage extremely high rates of growth. This chapter highlights their points of view on leading people, governance, strategies and financing. The three panellists, all founders and CEOs whose profiles appear elsewhere in this report, are Heidi Lang of TMG/Transatlantic Marketing Group, Ashraf Dimitri of Oasis Technology Ltd. and Paul Russo of Genesis Microchip Inc. Other CEOs who made comments during the panel session are not named but are quoted as "CEO". John Williamson of Deloitte & Touche was the moderator of the discussion.

- People 59
- Governance 60
- Strategies 61
- Financing 62

THE WISDOM Exchange

The panellists agreed on the importance of adequate training for their employees and of ensuring that, as the company grows bigger, the managers make a successful transition to the approach needed for managing a bigger company. Two of the panellists believe passionately in giving their employees shares in the business (this is a particularly strong sentiment in the IT sector) – and giving them access to the kind of key financial information that allows them to monitor the value of their shares.

Employee Training

Ashraf Dimitri: Invest in education. You can't get away from investing in employees' training. In my experience, it takes 7-8 months for an employee to become productive. Oasis has a buddy or mentoring process. You can tell after 4 months.

Heidi Lang: Keeping employees motivated is an issue. So is finding them. Invest in training, education, seminars. Tell employees their responsibilities and what they mean – not just their job title. Manage. Find solutions.

John Williamson: I participated in a start-up situation in Eastern Europe. The employees needed training, so I asked them what they needed training for. The employees themselves trained each other and it became a healthy competition between them. It created a culture of helping each other, communicating with each other.

Giving sensitive information to employees

Ashraf Dimitri: You can't get away from the importance of sharing information on the company. Communicate at every opportunity. As CEO, I communicate with the people who report directly to me and they help spread the word. This includes financial information – it is better than letting rumours abound. It is also a form of respect to employees. Tell them revenue, profit, gross margins – balance-sheet kind of information. Once a quarter, Oasis' CFO walks employees through financial statements.

Paul Russo: As a public company, Genesis is required to report quarterly. The firm must therefore be realistic and reasonable. Public companies must be much more transparent. All Genesis employees are owners. Our firm is an egalitarian meritocracy. We create a vision and we make sure everyone can get the information they need.

Managing mergers

Heidi Lang: It was hard to delegate but I needed to put people in place in order to grow. A mentor once told me: "Focus on what you're good at, and let other people do their jobs." I have superior managers. With growth come problems. Are existing employees ready for it? Currently, Transatlantic is a $4-million company. I need people who know how to manage a $50-million company. Some people have been with me since the beginning, because they're flexible. To some, I had to say goodbye, because they weren't the right people.

CEO: I want Canadians in the US to come back here – we have a brain drain of wealth generators. We're losing experience capabilities.

As firms grow, CEOs have to change and drop much of their involvement in the activities that made their companies successful in the first place. They also need to acquire boards of directors (although relatively few do).

Governance

Heidi Lang: When my firm hit the $4-million point, I knew I couldn't do it all. I had to make a choice. I like contact with customers – it is my strength – so I focussed on that and hired managers for operations. I also lacked financial and HR skills: I'm more of an expert in these areas now, but the best thing I did was to bring in good managers. I saw that things were slipping away and I didn't like doing health benefits plans and so on and I stepped aside. I've also hired people to monitor expenses, because profitability is important – not just growth.

Ashraf Dimitri: Ultimately, you're in charge. But if your company is to grow, you need to be smart enough to step aside. I spend 70% of my time talking to investors, customers and employees. It's a different kind of communications. You set the tone. You waste your talent if you're doing operations. You must also know when things aren't running well – and the markers that tell you there are problems include employees leaving or managers getting upset.

Paul Russo: Japanese firms are less successful at fast growth because everyone waits for the big guys to talk. You have to recognize that, as CEO, you need to let go, and empower people. Create incentive plans and present the results to employees on a regular basis. Remember that investors are betting on you, but they will bet against you if things start to go wrong. When a firm is private, you can have some problems along with some progress and still have the confidence you'll succeed. When a firm goes public, and the firm starts screwing up, the CEO is most at risk. A CEO is like a prizefighter, but when he starts losing... You need to have credibility in your investor relations. As CEO, half my time should be spent managing the investment community. I sell shares. I work with the team to determine where the company is going, to help the company develop so that it can meet challenges. I can't do R&D now.

Boards of Directors

About 20% of the 50 participants had a board of directors. [Show of hands by participating CEOs]

Ashraf Dimitri: A board of advisors is OK, but you can ignore it, so there is no accountability. A board of directors is better, because you're accountable. The lack of a board in a private company means that you are operating in a vacuum. There's nobody to mentor you, or tell you the company's in trouble. You should find opportunities to mix with other CEOs, like the Innovators Alliance and the Wisdom Exchange. It can help you benchmark your success. Step outside your role. MBA-type courses can also help.

Paul Russo: Investors don't know anything about your company, but sophisticated investors know management issues, and they will not hesitate to bring in new management. Get yourself a board, including investors who can help you (for example retired CEOs).

CEO: We have a board of advisors that includes customers who have a strategic position in the market. It adds value and helps to drive the revenue curve up. They are compensated with special pricing of products – and they could invest to buy a stake in the company.

Being close to our customers

Heidi Lang: I like to establish markets, I like to be close to customers, because salespeople can be gone tomorrow, but I need my customers. My board told me that I should spend 60% of my time on sales and not waste time on other things.

Ashraf Dimitri: It took me a long time to realize that my customers want me to succeed because they want me to be around to support them.

In setting goals and forecasts, panellists are very focussed on their customers, who are in the best position to say how fast they are likely to grow. Their forecasts are highly integrated with their estimates of the infrastructure required to sustain the potential growth rate.

Goals

Paul Russo: Our strategy is to optimize shareholder value. But you can't grow everything at once: you've got earnings, your customer base, gross margins and so on. You have to fine-tune it every quarter.

Ashraf Dimitri: As a private business owner, you decide how fast you want to grow. I want Oasis to dominate the market it is in. The only thing holding me back is uncooperative customers!! And ourselves. We have more business than we can handle.

Preparing good forecasts

Paul Russo: Get bottom-up and top-down information. Top-down can give you information on reasonable market share and competitive advantage. Sales guys can tell you about time frames. Then rationalize the two. Build a revenue model that's scalable, especially for a public firm seeking US capital. US investors want you to dominate the market; figure out what percent of the market you can swallow at a time. You need a business plan. You need to know your infrastructure support, capacity, manufacturing, financing, and you need to have known about it at least 8 months ago. The chip business requires it.

Ashraf Dimitri: We used to look back at the end of the year and say: "Hey! We grew!" We do have the ability to grow faster but it would crush us. You have to get pragmatic. You should know about the future of your business within 15% to 20% a year ahead. We have 300 customers worldwide, and we understand their budgets well before we do our own. I can name all my customers, and so I can tell you how much my firm can grow. Forecasting is the very last step. I need to know what kind of people to hire. Don't forecast the growth if you don't have the people. Pull back the organization or move ahead and hope you can build up your infrastructure along the way.

Heidi Lang: It's easier the longer you are in business. Ask your customers.

CEO: The bigger you are, the more confident you can be in your predictions. I go with three forecasts: worst, middle, best and I plan for the worst internally. However, most targets are self-fulfilling. Alternatively, you shorten your cycles for forecasting – go quarter to quarter.

Growth firms seem not to have trouble finding people in Canada who want to give them money. However, some have observed that the infrastructure is much better in the US, which results in an enlarged pool of sophisticated investors.

Availability of financing

CEO: I'm in the energy management field and bankers want to give me money.

CEO: I'm being told by the bank that I should go for more money, but I want to keep control.

Paul Russo: Take the money if you can get it.

Ashraf Dimitri: What kind of control do you want? All of a small company? Or part of a bigger thing?

Paul Russo: With Internet firms, there's more capitalization chasing smaller deals in"v-firms" and dot.com firms.

Banker: We don't seem to have the infrastructure here – people here are getting their financing from offshore.

Investor infrastructure

Paul Russo: I am in California because the investment community infrastructure is there. I've invested in a number of Canadian start-ups, and I want to see them succeed. Silicon Valley business associations hold functions every two weeks. The reason Boston didn't succeed as a high-tech "hot spot" – but Silicon Valley did – was because there is no infrastructure in Boston.

Paul Russo: Canada has good telecom and software analysts, but there are few chip analysts in Canada that have credibility. Without the analysts, there are no investors. Canada needs sophisticated small-cap high-tech investors.

The investor's point of view

Ashraf Dimitri: I just finished a road show to investors about my firm which lasted 2 - 3 weeks. Investors want to know: Is the market large enough? Do you have plans for a big share of that market? Do you have the management infrastructure (has the CEO given up enough control)? I had to answer yes to all questions. One investor took five or six meetings to finally say "We really don't know what kind of business you're in." Don't waste your time. If someone wants to give you money, take it while they're offering it. But think about the conditions and think about the next round. If you're successful, things go well; if there are bumps, US venture capitalists will come down twice as hard on you.

Heidi Lang: Know your business plan. Investors want to see their return, want to see the management team capabilities. Do a 5-year plan, and show how you're working towards achieving the plan. It's sometimes a challenge to prove to investors that the risk is low. Find people who invest in your kind of business.

CEO: We went through many rounds. Investors are careful about their money. Get leverage out of the investment through networking and partners. Do they understand your company? Get smart money – even if it comes at a higher price, it's worth it.

CEO: In the initial four financing rounds, I did things like partnership tax shelters and special warrants; labour-sponsored pools are more likely to step up.

Your investment banker

Paul Russo: Use the expertise of investment bankers and investment analysts. They have access to lots of funds that have money. We gave them our story, then had the ones we were interested in pitch to us. Then we looked at who had the best credibility.

Ashraf Dimitri: We looked in the US for the leader in the field. We looked at boutiques and the kinds of deals they'd done. Always pitch trust – to customers as well as investment bankers. Look at people who will execute your wishes.

Company valuation

Paul Russo: Investment bankers look at other companies like yours, compare ratios and look at demand.

Ashraf Dimitri: You can get any valuation, but watch the conditions (they'll want control, return guarantees).

CEO: I've noticed a big difference in valuation between Canada and the US. The US deal was more expensive but better for us – the US expertise was good.

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1 Richmond Street West, 8th floor, Toronto, Ontario M5H 3W4
Kathy Jeramaz-Larson, Deputy, Knowledge-Based Industries (416) 974-6391 kathy.jeramaz-larson@royalbank.com

CHAPTER 6

Big leaps – mergers and alliances

It is rare these days for a company to grow entirely through its own resources. In most cases, companies now seek out some form of partnership or alliance with other companies that have complementary interests and/or resources. Sometimes this takes the form of a merger, often it is an agreement to remain independent but to co-operate in some way – whether it be a licensing agreement or a supplier contract or a distribution agreement, to mention just some of the options for alliances. Other times it is a financial alliance, which can be anything from finding an investor (with or without a common business interest) to going public through an IPO (Initial Public Offering). As a final observation, participants noted that it sometimes goes the other way with the sale of a division or the entire company; the principles of buying and selling have much common ground.

- IPOs 66
- Mergers 67
- Alliances 70
- Bailing Out 76

IPOs

As the panel in Chapter 1 demonstrated, there is a lot of emotion surrounding an IPO. What follows is some practical advice and observations from the trenches.

Challenges	Solutions
Advantages	• Being public opens the doors for private placements and secondary financings • You now have two currencies for acquisitions – cash and stock • Employee retention improves: use stock options effectively
Disadvantages	• There are higher costs to be met: - Some tax benefits for private companies are lost - You have to pay increased auditor charges to offset increased liability, commission charges and exchange fees • Management has to spend time managing communication with shareholders • After an IPO, most CEOs and their management still maintain 70%-80% ownership. The float is small, so you get some flack from brokers because no one can buy large amounts • Disclosing financials to competitors is not that big of a deal
Alternatives	• Private investors all have different time horizons but sooner or later they want liquidity options - Earn-out clauses can quickly become burnout clauses • An entrepreneurial company can't always tap into money in a traditional sense. If you think creatively about your business you'd be surprised at how diverse an array of financing sources you can access • Know who you are and what you are and be emphatic about what you want • People have raised funds through an Employee Share Ownership Plan and not gone public • The shares are RRSP-eligible
Managing the process	• Find an underwriter – the bigger the deal, the bigger the investment firm - You'll pay the underwriter a percentage of the amount raised • There are also fixed costs such as lawyers, accountants and a road show where the underwriter arranges presentations to investors and analysts in cities across the country. Normally the CEO and the CFO do the road show • Setting the issue price of your shares makes a big difference – compare your company to similar public companies and calculate the price range

Mergers

Mergers – whether it's your buying another company or their buying you – throw everything you've built into a new hopper. CEOs in these sessions stressed that it is imperative that you prepare thoroughly and well in advance, choose carefully and negotiate with utmost attention to detail. A successful merger opens the door to a much greater penetration of markets, domestically and internationally, and allows growth to be sustained.

Challenges	Solutions
Advantages of a merger	• A merger in the US is a good way to access the American market • A US address is often important • Increases growth • Can eliminate competition • Increases profit • Can fill a void in your company's resources or client base • It's very rare that one person can take the company all the way through the various stages of corporate growth – a merger brings new leadership skills to the table - "Our goal was to not be a supplier but a partner, lending each of us more credibility and a more professional image. We gave up equity in exchange for that" • It can be a good idea to build up cash reserves. This is a "fire drill for recession" – it builds up a war chest - The exact amount of equity required in a merger depends on your objective – i.e. an IPO or a buyout - A strategic partner will overpay for a company
Disadvantages of a merger	• Takes an enormous amount of management time • Leads to a loss of control • Precipitates a change in corporate culture
Knowing when to choose another route	• One person is investing in human "thought capital" to provide capacity for design and has been acquiring satellite plants through mergers that make a higher margin. This has left him highly leveraged. What is the best way to go? - Other participants suggest a partnership with a financial person such as a venture capitalist
What to expect	• Be prepared to free up virtually all of your time for between six months and a year to get the job done • Be prepared for $1 million-plus in costs and to have key shareholders tied in for three to five years

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Challenges	Solutions
Valuing the business	• Be realistic about valuations of private companies. Public valuations are for public companies. You have to expect a discount • It's always about earnings. Profits drive value
Protecting your assets	• During negotiations with a potential partner, you should always have a non-disclosure agreement - This may not offer enough protection, therefore you should really know whom you are dealing with. Honesty is key. Sometimes you cannot mitigate all of the risks • In order to deal with contingent liabilities, you can buy all of the assets of a company, rather than buying the actual company • It is important to have a shareholders' agreement in place in advance - Non-competition clauses are important, but they are hard to enforce - Make sure you have a very well-structured agreement. Build recourse into it: → Answer the "What if?" questions. Agreeing on the ramifications ahead of time can save a lot of confusion if one party should not meet its end of the agreement • Request a forensic audit. If the potential partner does not approve, don't do the deal: - Pay for a professional to do an audit - Inspect the goods
Using professional advisors	• You want to have someone in your corner who has done this many times, otherwise you are often relying on hearsay. At the end of the day it is worth it • The compensation plan drives everything • It's probably more important that your advisor knows more about the buyers than about your own company. You can then educate advisors about you. They really need to understand the buyers' mind-sets and issues • A dispassionate professional not tied up in the business can often see things that you don't • Keep it confidential within your company during the process
Elements of a successful merger	• Have strong champions on both sides • Make sure you have common ethics and compatible cultures • When dealing closely with someone, make sure your interests are aligned

Challenges	Solutions
	• You must have mutual respect • Know what your business is worth • Know what your goals are • Go into it with the right attitude • Size matters if you're planning on doing an IPO • Tie up key people and loose ends (i.e., litigation) within your own company before the process begins • There are synergies, beyond money, that come from a perfect fit in a merger • The ability to deal with the bank can be an advantage when buying a company. Mezzanine financing works as an equity injection, but equity is not given up. This requires a free flow of information between the company and the bank • How you should protect you assets depends on what needs to be protected (i.e., technical process, key people, know-how, etc.) • There will always be someone out there trying to copy you. It will be up to you to keep raising the bar so that it won't become critical
Playing in the USA	• You go to the US and there are billion-dollar companies in your sector that you've never heard of. It's incredible • "As a boutique firm, we had cranked all the juice out from that orange. I just couldn't see how we could do much more without a partner/alliance" • Sometimes a $10 million sale in the USA takes less time and effort than a $100,000 sale elsewhere • With respect to valuation, the Canadian market seems to look backwards at performance while the US appears to be more forward looking • Americans think that Canadians are honest, well-educated and somewhat similar to them, though a little slower on the uptake in business
Merging with companies in other jurisdictions	• If you are going to do business in Texas, you'd better know something about country music and big steaks • It's critical that you know the regulations abroad • Outside of North America, the political culture and the personal connection are as important as anything else - El Salvador is booming and open for business • You should align yourself with somebody who knows the local market

Alliances

Alliances can vary from highly informal understandings about sharing information to a contract-based agreement that dictates detailed co-operation in pursuit of shared goals. There is no cookie cutter, so every alliance is different. The principles in the process of creating a strategic alliance are therefore critical. The CEOs suggested preparing for an alliance well in advance by laying firm foundations of shared values and goals and establishing clear understanding of the benefits and risks for both sides.

Challenges	Solutions
Getting the timing right	• When the market overall is up, it is better to build competencies. When the market overall is down, it is better to buy competencies
Determining the best type of alliance for your firm	• Marketing alliances are done with companies that have a complementary product or with a supplier. It's low-risk and provides double the market exposure. It results in more leads: - Marketing alliances can be used as training programs. A winery invited LCBO sales staff for a tour and lesson in wine making. Now the sales staff is better educated about wine, and they know this winery intimately - One firm takes existing Rubbermaid products and develops them to the next level. Rubbermaid allowed them to produce a new product for a year before taking it back. The relationship was based on informal agreements. Rubbermaid has been taken over, so the firm has to go back and re-establish the informal relationship • Customer alliances are done when the supplier and the customer's product are complementary, so there are win-win possibilities: - Give customers exclusivity on a leading-edge product in exchange for help with your R&D costs - When customers demand price cuts, the supplier must know when to walk away from a deal. Know when to fire a customer - Vertical alliances are a subset of customer alliances – for example, a glass manufacturer might invest in jam producers so that his/her company will sell more jars - One CEO signed a 5-year contract with a customer in return for the upgrading of his equipment - Another CEO, whose firm manufactured pet food, got a call from one of the majors in his industry offering to buy the company. He would have had to harmonize his manufacturing with theirs, which would have meant lowering the quality and hurting his product's name • Supplier alliances - Place a large order with a potential partner in exchange for distribution rights to their products

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Challenges

Solutions

- Licensing agreements
  - One CEO sold 20% of his business in return for licensing some technology. He benefited from their network and gained an active board member. Later he bought back his shares
- Alliances with competitors provide access to larger projects
  - They offer opportunities for subcontracting functions
- It is important to develop non-traditional alliances

Advantages

- The days of the lone wolf are numbered
- The kind of velocity you need is through alliances
- Alliances bring greater strength and endurance to your business strengths:
  - They can help to expand distribution quickly
  - They can help if you cannot get business on your own:
    → A strategic alliance is generally used to compete in a global market
  - Acquire core competencies through alliances
  - Alliances can bring different technologies together:
    → Look for complementing technology
- It is tougher and tougher to compete – and the urge to sell out is hard to resist

Challenges	Solutions
Generating leads for the best partner in an alliance	• Look at your accounts receivable and accounts payable listings; one of those companies may be a good partner • Talk to professionals and bankers, including: - Business Development Bank of Canada (BDC) - Your lawyer and accountant - Industry associations • Customers and suppliers are a good source. They have lots of information: - Suppliers can help you find good employees - Arguments with suppliers are acceptable
Maximizing the benefits of an alliance	• Buying a company is safer, but the cost is greater • When entering into long-term agreements: - Look for niche markets - The lowest price is not usually the best - Build relationships and service capability - Sell yourself
Getting help for the process of creating an alliance	• Attend the Wisdom Exchange • Join the Innovators Alliance • Attend industry association meetings • Industry Canada has information on strategic alliances • Find a blueprint for forming a strategic alliance • Do a market study
Weighing the strategic considerations when initiating an alliance	• Identify the assets and roles that each brings to the alliance - What is the value added for you? • Develop credibility and build on it • Weigh the risk • Size and expectations are important: - When a small company enters an alliance with a large company, the drawback is that the large company pushes its product, not yours. The benefit is that the small company gets access to their distribution channels - To deal with the big companies in the automotive industry you have to be in the $200-million range; $50 million is Tier II - The most difficult alliances are with companies of comparable size and particularly Canadian companies → Co-operation with Canadian companies is difficult because we tend to be suspicious → Canada has more regional-jealousies

Challenges	Solutions

	• If the potential partner is not up to your standard, you could be damaged
	• Ethics are important
	• Remember that some partners continue to shop around
	  - Openness and honesty are invaluable
	• Location is important for alliances
	• Look at buying groups as a starting point for a strategic alliance:
	  - It is a long-term process
	  - Get a group together for some purpose
	  - Start a joint buying group in a non-competitive area
	  - Start mixing the mortar that holds an alliance together:
	  → Build trust, co-operate, get buy-in, take risks, allow for new thought processes
	• The group is now the strategic alliance

Elements of a successful alliance	• Lay out ground rules up front
	• Look for synergy. There must be value for both sides
	• Fundamental values must be shared
	• There's a mutual awareness of the business environment
	• Strategic alliances can be very cost effective:
	  - What you provide can be your profit centre
	  - What you provide can reduce the ally's costs
	• Give without expectation of return
	• Alliances of groups or people should be localized

Conducting due diligence	• Get customer references • Review all customer complaints in past year • Consult all customers who no longer deal with the potential alliance partner • Get references from large accounting firms • Check the culture of the potential alliance partner
Protecting your assets	• Look at the qualitative not quantitative perspective • Have a good exit strategy: - Use an exit strategy to become a division of a larger partner or to perform a reverse takeover • Bring technology to the table – it is easy to identify • Customer lists are difficult to identify • Protect assets by moving them • When forming strategic alliances in foreign countries, segment your technologies

Challenges	Solutions
Sustaining and growing the relationship	• You must always add value to the relationship or the partner will go elsewhere • Your relationship with your partner may be more valuable to you than your client. You could undercut the partner to gain a sale but it would be short-sighted • You have to overcome the emergence of suspicions: - Build the relationship continuously - Build trust - Do what you say you will do
Knowing when to protect the alliance with a contract	• There must be a clearly defined contract for the alliance: - Always have a contract but don't expect to sue - Remember that people set up alliances and that people change - One CEO had an informal agreement with a partner whose firm was taken over by another firm with a very structured process. He must now decide if the new process is worth the benefits • When working with consultants or partners, setting out the terms of the agreement pays off in the end: - Explicitly, outline conditions for poaching of staff - Another way of handling the poaching of staff is to charge the poacher a headhunting fee for the employee. Once the poaching has been done, it is hard to undo without making the new employee resentful. On the other hand, undoing it sends a clear message to the rest of your staff
Initiating international alliances	• International alliances: - mitigate the risk of international business - provide access to foreign markets - add an operation in a foreign culture, language etc. → Example: Eastern European countries are lagging North America in computer technology, so one CEO was able to purchase old PCs here, refurbish them, ship them to Eastern Europe and sell them at a profit. However, he needed partners in the country for management and sales there - A joint venture can offer exchange programs for the staff, which is a great motivation - Import duties create arbitrage opportunities - There are tax incentives in many countries • If you are growing fast, you must determine how long until competition intensifies and the product becomes a commodity. However, take the technology to China and you will grow for even longer

Challenges	Solutions
Getting information on international alliances	• Government help can be invaluable - Use Canadian Trade Consulates offshore - The government put one CEO who was on a business trip to Australia in contact with business partners and helped with the research - The Export Development Corporation has a program that subsidizes a research project for international alliances - Look to government not for money but for knowledge Generally, government provides useful information on: → Successful joint ventures in the past → Potential partners • Do your market research - Market research showed that a product at C$600 in Ottawa was expensive for the market but the same product at US$600 in Chicago was cheap for that market. Market research is key
Protecting your assets in an international relationship	• Make sure your product/process cannot easily be copied, especially in the Far East • Laws are different in other countries. This makes it harder to protect yourself. The Export Development Corporation does offer some insights into this • Control the inputs – either have a stronger relationship with the customer or have lower costs to prevent your partner from excluding you in the future • The relationship with a government ministry that sets you up with business contacts can be valuable • There's always a fear of a partner's learning all of your secrets, then walking away and competing with you - "Every alliance I've been in, we win one way, they win another. You have to decide what is the core product you are going to protect"
Establishing a foreign plant	• Trade barriers such as import restrictions often require you to set up a shop abroad. Local partners help you to set up and operate • If you find a niche in a foreign market, you had better be prepared to build a plant there in the future if your niche is successful. As the niche grows, foreign companies will begin to compete with you and local production is usually a benefit

Bailing Out

The other side of the growth coin is knowing when to cash in. Sometimes a CEO cedes leadership through an acquisition or a merger, but the most common "exit strategy" is selling the business. However, for growth-minded people, this is rarely well-managed, if it is even considered. These CEOs, however, have a sound strategic view as to whether and when CEOs should bail out of the businesses they have built.

Challenges	Solutions
Knowing when to stay and when to play	• Many owners never consider when they want to get out of their business. Venture Capitalists have sunset clauses (3-5 years) and entrepreneurs should do the same when shareholder value is maximized. However, emotion often keeps them from selling. This erodes shareholder value • It is a good idea to sell large chunks of a company to a fund manager, as this will not move the market
Setting up a business for sale	• Plan one year in advance – it takes that long to make a sale • Make sure the unit is healthy • Organize all material contracts • Set up an external board of directors • Get all your contracts in writing • Write up a shareholders agreement • Establish employment agreements with key employees • Protect intellectual property • Settle outstanding litigation • Make sure contracts can't be cancelled if there's a change of control • Manage your professionals • Establish a team leader • Know what criteria you are using when evaluating each division
Implementing the sale of the business	• Identify target buyers • Negotiate with the principals • Sign non-disclosure agreements • Conduct your normal, detailed due diligence • Sign a letter of intent (non-binding?) • Negotiate the contractual agreement, including tax treatments, etc. • Work toward closing

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For further information, please contact: Don Gordon, Director of Business Development. Phone: (604) 643-6527.
E-mail: dgordon@cdnx.ca.

CDNX Toronto – The Exchange Tower, 6th Floor, 2 First Canadian Place, Toronto, ON M5X 1E5 Toll Free: 1-877-CDNX 4VC
CDNX Calgary – 10th Floor, 300 5th Avenue S.W., Calgary, AB T2P 3C4 Toll Free: 1-877-884-CDNX
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CHAPTER 7

Managing your resources

The biggest single challenge faced by growth firms is to manage inadequate resources effectively. By their very nature, growing businesses face a demand for ever more people and ever more money. Also, because rapid growth means their strategic situation is constantly changing, they need to be acutely aware of current trends within their industry and environment. Finally, rapid growth creates an insatiable appetite for financing.

- Developing the Right Mix of Resources 79
- Watching Trends..... 84
- Seizing Opportunities 86
- Financing..... 89

THE WISDOM Exchange

Developing the Right Mix of Resources

The key ingredients for success in rapid-growth firms are the ability to keep a good balance between competing needs and resources and between existing strengths and new opportunities, as well as the ability to turn new ideas quickly into profitable ventures. This requires the CEO to measure precisely the company's progress and to balance the mix of resources to meet all current needs. CEOs need to know when to buy and when to build, how to find the right mix of employees and steadily strengthen a fluid situation by building process into it.

Challenges	Solutions
Monitoring company performance	• There is a need for a strong accounting infrastructure so that you will know in time if things are going wrong - You need a CMA, an accounting firm and a financial analyst. Not just an accountant is needed but a management accountant. A bankruptcy trustee knows what not to do - The accounting function must be from-the-ground-up: → It covers all costs → It is brutal to set up, but you can hire an accountant → It divides the company into little bits. It helps you understand which room is being used more, where the profit centres are, etc. → It shows gross margins for each activity → Costs can be allocated by project, customer, etc. → You need controllers on staff → It creates the "mother of all spreadsheets" • You need consultants to continually review operations
Business plans are the markers by which performance is measured	• Business plans provide the benchmarks for monitoring company performance • "I was hounded by my bank for 5 years for a business plan" • A business plan costs $18,000 - $25,000 • "A business plan was the second best thing I did (second to using a headhunter to fill a key position)" • The business plan crystallized and revolutionized the business. It took 3 months • A business plan signals to employees that you are committed to providing a structure

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Business plans are the markers by which performance is measured	• Business plans provide the benchmarks for monitoring company performance • "I was hounded by my bank for 5 years for a business plan" • A business plan costs $18,000 - $25,000 • "A business plan was the second best thing I did (second to using a headhunter to fill a key position)" • The business plan crystallized and revolutionized the business. It took 3 months • A business plan signals to employees that you are committed to providing a structure

Challenges	Solutions
Achieving the right balance within and outside the business	• Some indicators that measure your balance: - The time you go home at the end of the day - The number of times you go golfing per year - A healthy cash flow (if you don't have it, you're hamstrung) - Market share (sometimes you have to say no to potential business and this is very painful) • Balance is all about maintaining awareness of your product's life cycles and having a flow of new products ready to introduce at the right time • The ability to plan ahead provides balance but it is seldom possible • The only way to enjoy business balance is to have a monopoly – in a competitive environment the scales are always shifting and thereby creating imbalances • Customers need change. As a result, alliances also change if they are not flexible
Using a board of directors or advisors to provide balanced advice	• Just less than half of one group had an informal advisory group or were contemplating one; all thought an advisory group was helpful – to provide balance and guidance • Internal boards of advisors should be made up of employees from various departments • Pick people who know more about various functions than the CEO and management team • Rotate the members of the advisory group to clear out the "blockers" – this is a good reason for an informal group structure • In a recent survey of CEOs, most felt that the most important thing they should have done sooner was get a board of advisors
In-house vs contracting out	• Outsourcing is growing in popularity and is being used as an alternative to hiring additional staff: - Most CEOs out-source their Websites - A common problem is overloading by a consultant who delivers plans when there is a lack of time or resources to implement them → Before hiring a consultant, know whether your company needs "coaching" or "doing": if you don't know what to do, look for "coaching" and if you know what must be done – but don't have time – hire "doing"

Challenges	Solutions

	• Focus on core activities and outsource other parts
	  - Outsourcing is good when the volume is there; then bring it back in-house when it is cost effective
	  - Keep unique product development in-house; everything else to be outsourced
	• Outsource firms should be accountable with pay tied to their actual performance
	• Advisory services from university business school programs are highly regarded
	• A new business can't start out with a host of departments – usually one or a few people will handle everything. As the company grows, the CEO must add operational departments as needed – although such additions are often made too late or in response to problems
	  - Avoid growing a monster by adding employees who must be fed by a disproportionate growth in sales
	• The key to operational success is to systemize your business like a franchise

Getting the right mix of people	• Secure a balance between capability and utilization
	  - Watch what happens when the job requirements increase beyond the skill set of the employees
	• Plan to increase employee infrastructure
	• Ask yourself "What would happen if this person leaves?"
	  - "There are no business problems, there are only people problems"
	• Recognize that there may be a need to upgrade sales staff
	• A management team can have strong skill sets but they aren't always experienced managers
	  - Sometimes the job outgrows the people. They have been there so long and are so entrenched, that the job is not done well anymore
	• Support staff are key to operations
	• Calculate profit in dollars/person
	• Cross-train as many people as possible

Aligning employee and company interests	• Share with your employees a rolling three-year strategic plan with a 10-year vision. Include revenues, costs, the bottom line, new markets and intended initiatives • Brainstorm business opportunities with all employees • Put the vision statement on the back of all business cards • Establish a comfort level with employees to allow for two-way communication so that they know they can approach you

Challenges	Solutions
	• Find time once a quarter for staff meetings – if for no other reason than inclusion - Use a rotating chairperson (always staff, regardless of their position). The chair sets the agenda. The minutes assist management in keeping on track. Meet during non-working hours. Keep in mind that the content is sometimes secondary • Use e-mail – including those in the manufacturing area • Sell everyone on being part of a successful company - People (staff) want to play on a successful team. Play up success! - Share press with staff and emphasize that success is a team effort – "We couldn't have done it alone."
Motivating employees	• Give honest and immediate feedback • Benchmark salaries against industry norms • Publicize tangible examples of employee productivity • Use surveys to monitor employee satisfaction - To be meaningful, employees must trust that the survey they fill out will generate positive results rather than resulting in punishment or being ignored • It is a great challenge to find people who are willing to put "that extra effort" into their work - Techniques used to this end include: flex hours, money, the open-book approach, profit sharing - Such motivators seldom work – it's a work culture/ethic with little relation to bonuses and incentives - Develop a work culture/ethic profile to guide hiring efforts. One CEO looks for candidates who express a passion for their chosen field of endeavour • Testing is effective in the hiring process – although sometimes the "nightmare interviews" produce the best hiring choice - If you plan to use any given test to aid in your hiring decisions – take the test yourself or have key company officials take it first. Then ask yourself if it tells you what you have already come to know about your colleague

Challenges	Solutions
Setting compensation at the right level	• Profit sharing for all employees • Pay below-market rates, especially to skilled workers, but offer bonus targets (the average is 23%) • Do a salary survey every 6 months
Keeping the balance between process and initiative	• Every company must add process at every stage of growth - Often the task is to formalize processes that already exist • Processes are effective only if the person at the top follows them • To implement processes (such as ISO) a company must have an internal champion (usually the CEO). Do not rely on outside consultants to do it for you • Is IT increasing productivity or is it taking money from production through capital costs?

The CEO's role	• Balance your roles as owner and senior manager
	• The CEO must be free to do whatever he or she is best at and produces the most value – then hire others to do the rest
	• The CEO must delegate authority:
	  - Make a list of jobs the CEO must do; delegate all others
	  - Delegate when you're away
	  - Delegate, but have checks in place
	  - Be proactive with those to whom you delegate in order to ensure they don't fail
	  - Bring out others' capabilities
	  - Define your own capabilities
	  - Set values to accomplish goals
	  - Predict performance
	• Manage your time (and the quality of staff to do things for you) on the assumption that your core business will change every 6 months
	• Sometimes you have to tell employees "This is the way it is. No discussion"

Watching Trends

Some trends have such a high profile – for example, the Internet – that it is not difficult to follow them, although interpreting them may be another matter. However, determining other trends – such as those related to competition, technology and customers – require more effort. Keeping abreast of changing trends is a vital part of the process of managing resources.

Challenges	Solutions
Supplier strategies for big companies	• Vendor reduction is driving the way everyone operates • There is a trend towards partnerships vs outsourcing - How to tie customers legally to contracts: → You need non-competition/confidentiality clauses → Protection of internal resources such as databases is important → The document itself can be a deterrent
Popular strategies	• The trend is to spend for market share • Growth in market share does not always result in a better bottom line
Competitive threats	• "No matter what industry you're in, you've got to look at yourself as a company of the world" • If you're not competing against a world market now, you will be shortly - Competition is no longer in Canada. It's in Dallas, or elsewhere in the world - Battle the competition on your home ground • Companies are driven to dominate their market • "Business isn't war. In war, the winner can be damaged. We must co-exist" • Rather than watching your competition's strategy, develop your own (except on price) • "My goal is to take your customers" • Know the competition. Assess your competitor's strengths and weaknesses: - "When a competitor enters the business, I will know it three months before they receive any equipment" - Collect competitive intelligence (for example, competitors may be attending conferences to acquire equipment or to learn about engineering standards, which tells you where they're going) - With a new entrant, the concern is that the new competitor may potentially raid your people • You can learn from other businesses and competitors
Keeping on top of current trends	• Attend trade shows • Belong to industry associations • Watch newspapers for trends • Watch the marketplace

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Keeping on top of current trends	• Attend trade shows • Belong to industry associations • Watch newspapers for trends • Watch the marketplace

Challenges	Solutions

	• Set trends yourself, if possible
	• Talk to sales people
	• Enter strategic alliances
	• Be involved with suppliers
	• Monitor customers and competition:
	  - Meet continually with core customers to know their trends or changing needs
	  - Focus on competitors in their ads, etc.
	  - Find out why you did or did not get an order (was it design, cost, or what?)
	• Do all of the above, but on the Web
	• Harness R&D

Technology is a major factor	• The evolution of technology is fast and significant – you need to be nimble to stay on top of change • Keep up on changes in technology • The people who apply the technology make the money. The people who develop it, don't. The trick is to do both • It takes time to train people

The Internet is key to growth	• The Internet is driving international business, i.e. exports
	• Transmitting information over the Internet is a problem because it's often slow. It's important to upgrade
	• Customer expectations have "gone haywire" because of the Internet
	• The Internet is a problem for companies that have licencing agreements around the world
	• Everything is consolidating on the Internet
	• Physical location is a factor in growth
	  - In the wrong location, you'll have a problem with outside lines, etc.
	• CEOs all say they are learning to use the Internet
	  - The "Net" can become all-consuming. One CEO spends an hour a day exploring the "Net" on behalf of his company
	• Practically all leading growth firms have their own company Website
	• "Web live voice" is a potentially powerful tool that allows you to make contact with people who are hitting your Website
	• Having the right information easily accessible on your Webpage is more important than having a glitzy, colourful or fancy site
	• The Internet is helpful for staying up on the competition and your industry
	• There is increasing use of the Web as a sales tool
	  - More buyers are becoming comfortable with the Net

Seizing Opportunities

Seizing new opportunities starts with an idea, then becomes a new business through several stages of development, in the course of which the company must assess the resilience of its existing systems, customers and suppliers. At each stage, the ability of the existing organization to absorb the new activity must be carefully measured. Finally, the new business must be launched decisively and quickly.

Challenges	Solutions
The CEO's role	• The CEO must focus on being ready for opportunity or it may pass the company by. Others can be hired to handle the day-to-day operations • The CEO must manage two distinct functions: the visioning for the future and the day-to-day operations
Idea generation	• The main steps for idea generation are listening to the customer, learning their needs, and then developing new products - Asking customers to help with ideas also generates loyalty • Idea generation is a unique mix between marketing minds and engineering minds • Sharing ideas with competitors can be a moneysaver and idea generator • Outsource expertise to generate ideas and prototypes - an outside person can listen to customers and translate their needs into improved and new products.
Translating ideas into opportunities	• Know what you want and prepare for when the right idea comes along - Position yourself for the right market and the right client - Be ready to move fast when the right opportunity comes along • Sell the idea first to the people who will be implementing it • Find a "quarterback" within your organization. The quarterback determines how fast the idea is transformed into an opportunity. The moment you find the right person, it'll happen fairly quickly. The quarterback is the one who brings it all together • By hyping up the idea and selling it quicker within the organization, you short-cut bureaucracy

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Challenges	Solutions
Seizing the right opportunities	• Construct a matrix showing potential revenues on one axis and cost on the other – then rank the opportunities based on highest return • The return for a new idea must certainly be there – and you must know that if everything goes wrong, we will still survive • Analyze the product cycle to make sure it does not change • Make sure you're using the newest available technology - Focus on your ability to read the potential of a new technology before jumping in • Provide a product or service that nobody else provides • You may also find yourself ahead of the market, with the expense of educating the market about your goods; this is very expensive and the competition inevitably jumps in just when you have accomplished the educational process.
Speed to market	• Speed to market has accelerated rapidly over the past few years - the market's expectations may be too fast • Reduce the lead time for new products: - Product development may be outsourced because of time pressures - Get orders for the new product, then press to meet development deadlines - Do just-in-time manufacturing • Eliminate secondary handling • Ensure you are successful in producing the product, then take it to market - Take the time to make a prototype yourself, then subcontract the production • Any change in the operating system requires more training • The ability to deliver the customer's order quickly is a key consideration • Timing, luck and foresight play key roles

Challenges	Solutions
Balancing existing strengths with new opportunities	• Bring customers into the planning cycle - Be client-centric: listen to what clients are asking for • Choose your customers and suppliers strategically – where are they going? • Know when to hold and when to fold • With lower margins, there's no time to look at other opportunities. It's difficult to take on new projects with ongoing work • Contract out to limit overhead • Ask yourself if the new opportunity fits in with your strategic plan? If so, what can be dropped if needed? Will the core business suffer?
Integrating the existing plan with new opportunities	• Business planning with benchmarks is important for core and new businesses • Companies should develop in-depth plans - "We developed a 60-page business plan. But only one part of the plan is agreement on direction. The rest is implementation. Business planning meant there weren't too many surprises" - All the employees know the plan. This way, you can avoid the "our plan vs. his plan" scenario • One company had the opportunity to develop a new business in a similar industry: "We were smaller then, and we spent a terrible amount of effort in development. Our core business suffered, and in fact, we just about dropped both businesses in the process. The budget was not enough to develop it properly" • Another company opened a second facility. Existing capabilities in communication, networks, people, etc. were reviewed. "The second facility allowed us to double sales, but our shipping area couldn't handle double the business, given the lead times and errors. We also suffered from the additional management burden"

Financing

There is a great deal of support among CEOs of growth firms for self-financing – or financing growth out of cash flow. Others cannot do this as their growth rate is too high. All the CEOs, however, know how to conserve cash and deal with investors and bankers, no matter how frustrating they find the process.

Challenges	Solutions
Planning for growth	• Planning for growth leads to financial inefficiencies • Adding infrastructure early saves in other non-financial costs, such as reputation, morale
Bootstrap financing	• Opinion is split: - Half say self-financing is a good strategy for a controlled-growth company - Half say self-financing is not always the way to go, as it can result in missed opportunities • A company's financial needs and the type of financing chosen depend upon market need and expected demand for the product • It is always a chief balancing consideration to decide between equity and debt financing • It is frustrating how much time and effort are required to deal with bankers compared to other aspects of business operations
Conserving cash	• Minimize debt load - One company had no debt and no payables - Another's new product sold quickly enough to cover costs, eliminating the need for debt • Make your base cash flow secure by selling other people's products first. Then sell your own products • If you are moving into new premises, have the landlord provide renovations and improvements, and put continuing requirements in the lease • Use your suppliers credit line • Use a capital lease • Insure receivables

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Ruth Fothergill, Regional Vice-President, Ontario
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Martin Lanigan, Manager, Commercial Banking (416) 308-3417
lanigm.tdbank.ca

Technology integration

CHAPTER 8

Technological innovation is flooding the world today, and everyone is talking about the Internet, which is changing the way we do business. It is creating huge opportunities for business development but it needs to be managed well to help employees integrate into the digital world and to identify the strategies that work best for a company. In making an assessment of what this all means and where we are going, it seems that the benefits will outweigh the costs by a large margin. There is still room for improvement, however, and the face of the Internet will change many times before it settles down (if it ever does).

- Where Are We Going with the Internet? 92
- www Opportunities..... 94
- People Issues 96
- An Assessment of Our Progress So Far..... 97
- A Cost/Benefit Analysis 99

THE WISDOM Exchange

Where Are We Going with the Internet?

Everyone is talking about the Internet! Perhaps that's because it is transforming the business model that has served us for 250 years. The character and use of the Web is changing too fast for most people to keep up, particularly in e-commerce. Yet it is still unclear where the Internet is going – and the hype about the Internet is obscuring many other technologies that are developing just as fast.

Challenges	Solutions
The business model is changing	• The Internet is a sales device and an information device • Your Website is your identity. It is a living, active link between your company and your client • The Internet is changing the role of the middleman; people go direct - The Internet is a distribution channel - It's a demand channel – no inventory is required, you fill orders as you go - You have to know what the customers' needs and wants are and fill them - The Internet will not replace distributors with direct service → Or will it? - Look at your distribution channel. Is it working for you? Can it be changed or modified? - Look at your hardware – how are things sold? We will be changing our channel of distribution
Keeping up with the Web	• The Internet speeds up how we get information, compared to, say, a library - A month on the Internet is equivalent to 12 normal months – "it's like dog years" - Change is happening ever faster, as software firms prefer to deal with e-commerce suppliers. This in turn will provide a better educated workforce • Commercial laws are not keeping up with changes brought about by the Internet • The Internet is moving quicker than the government's best efforts to keep up • Security and the protection of privacy in e-commerce are still issues

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Challenges	Solutions
The danger of overstating what the Internet can do	• The Internet isn't the only new technology in town • Other new technologies will also have very big impacts on the way we do business in the future - Mobile technology, wireless, citrix - Robotics, image technology, artificial intelligence, electro-optics, fibre optics - The paperless office - Colour printers - E-mail - Readable CDs
E-com	• Many markets are going interactive – i.e. online auctions - Real-time purchasing on the Internet is here now • You can now choose your own price online • Customers now demand Web service and this will grow

www Opportunities

The Internet is already opening up previously unheard-of opportunities for developing new and existing markets as well as new products. But the opportunities that lie ahead may be even more impressive. Thus far, improving the bottom line has not been a priority – but the opportunities are great there too.

Challenges	Solutions
Developing new markets	• The Internet is borderless; it's global. As a market, it can be anyone, anywhere in the world • It's very easy to develop affiliate programs • By swapping banners, you can add whole new markets
Introducing new products	• The Internet can take your company into different customer segments • You can develop different incentives for using your product or service • The Internet positively affects ease-of-use
Redefining your dealings with customers and vendors	• By using information from the Internet in general and e-commerce in particular, you can acquire new customers and develop strategies for future customers • The Internet can be integrated into your internal processes - This delivers benefits at a very low cost - It is faster than anything else we have ever seen • It is accessible 24 hours a day, 7 days a week
Improving the bottom line	• The more complicated the business, the bigger the cost – and the longer it will take to deliver a return on investment • It is almost impossible to measure the impact of Internet opportunities on the bottom line - In our efforts to be first in the market, we've done a poor job developing measurement tools at the front end to evaluate the effect of technology. Organizations are now trying to do something about that - You can tell whether you're getting your message out by the number of hits on your Website • You don't get into the Internet just for profits - Profit has not been the focus so far - It is a boon for quality assurances and redesign processes - It reduces customer churn - It offers strategic advantages: → It lowers many critical costs → It opens up many more opportunities

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Challenges	Solutions
Major opportunities in future	• The Internet will: → provide the facility to track activities automatically, anywhere on the Web that will identify opportunities for acquiring new customers → become the most important marketing opportunity → improve the fill rate of orders → reduce the requirement for inventory → become a major tool for recruitment → provide the opportunity to align with other organizations for business ventures

It is important to create a corporate culture that is comfortable with the Internet. However, everyone doesn't have to be an expert. It is often better to hire an outside company, which is able to maintain qualified staff more easily. CEOs don't have to be experts themselves, but they must know enough about their companies and their technologies to make the right decisions when buying new technology.

Challenges	Solutions
Management aspects of the Internet	• Technical people are motivated by "doing it better", rather than by money • There is a lack of good people - The brain drain is real and it is hurting • Go to outside companies for technical services rather than maintaining internal expertise. You may have a single person who might leave, taking all the company's expertise, and leaving the company in a bind. If you want to provide a service in-house, you must have a few people or a department dedicated to this service • The responsibility for technology does not have to lie with top management. You need a champion inside the company – the CEO does not have to know every detail • The trend in large companies is to have CIOs – Chief Information Officers
Getting people accustomed to the Internet	• Give employees access to PCs so they can get interested and motivated to use the Internet
The CEO's role	• The CEO needs to take time to look at technology in order to find the best system. It needs to be part of a short and longer term strategic plan and should identify opportunities in technology to grow the company • CEOs must understand their business and the technology required, as it is not the same for every business • CEOs need to attend trade shows, such as COMDEX, to learn and keep up-to-date on the developments

An Assessment of Our Progress So Far

There are disadvantages in hooking up to the Internet – these new technologies cannot be used randomly. However, with good planning and careful implementation, the advantages far outweigh the disadvantages and barriers to entry.

Challenges	Solutions
Advantages to hooking up to the Internet	• It improves name recognition • It's a good marketing tool • It provides lists of dealers and can locate distributors and their locations • It provides miscellaneous information in the form of very detailed catalogues • It can be used for communication and the exchange of ideas • It has a very broad audience • It is a very powerful economic tool
Disadvantages to hooking up to the Internet	• Should a technology company close, what happens to the systems already in place? - When you pick partners, customers and suppliers, you must choose staying power • Everything collapses when the systems are down - When the system is down, it negatively impacts the bottom line • Dependency on technology is a two-edged sword
Barriers to successful exploitation of the Internet	• It has too wide a focus • You need to convince stakeholders • It is expensive and time-consuming to keep up with the speed at which technology is changing • Technology is expensive (5% - 7% of expenses) • There is a resistance to change in some customers and employees - Its attractiveness to outsiders needs to be assessed • It is not yet widely accepted as being secure for credit cards • There is a perception that everyone is hooked up but not everyone feels comfortable using the 'Net' • Many people are browsing and not buying - However, this will change - You need incentives to buy

People Issues

It is important to create a corporate culture that is comfortable with the Internet. However, everyone doesn't have to be an expert. It is often better to hire an outside company, which is able to maintain qualified staff more easily. CEOs don't have to be experts themselves, but they must know enough about their companies and their technologies to make the right decisions when buying new technology.

Challenges	Solutions
Management aspects of the Internet	• Technical people are motivated by "doing it better", rather than by money • There is a lack of good people - The brain drain is real and it is hurting • Go to outside companies for technical services rather than maintaining internal expertise. You may have a single person who might leave, taking all the company's expertise, and leaving the company in a bind. If you want to provide a service in-house, you must have a few people or a department dedicated to this service • The responsibility for technology does not have to lie with top management. You need a champion inside the company – the CEO does not have to know every detail • The trend in large companies is to have CIOs – Chief Information Officers
Getting people accustomed to the Internet	• Give employees access to PCs so they can get interested and motivated to use the Internet
The CEO's role	• The CEO needs to take time to look at technology in order to find the best system. It needs to be part of a short and longer term strategic plan and should identify opportunities in technology to grow the company • CEOs must understand their business and the technology required, as it is not the same for every business • CEOs need to attend trade shows, such as COMDEX, to learn and keep up-to-date on the developments

An Assessment of Our Progress So Far

There are disadvantages in hooking up to the Internet – these new technologies cannot be used randomly. However, with good planning and careful implementation, the advantages far outweigh the disadvantages and barriers to entry.

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Challenges	Solutions
Strategies for introducing new technologies	• When introducing new technology, don't do it all at once – phasing it in is safer • Go after main stream systems that are not leading edge, as the latter have not always been thoroughly tested • Augment your business plan with a technical plan for 3-5 years - This can be very expensive

Strategies for going on the Internet	• Be proactive
	• Going on the Internet needs lots of planning in the developmental stages
	• Connecting to the Internet could be seen as either an offensive or defensive tactic, depending on the business plan
	• In deciding between buying expertise or building it within the organization, cheap and quick is not always the best way
	  - The trend is to pay for expertise and use systems built outside the company
	• Use the Internet to sell
	• If you put too much information on the Web, it could be a two-edged sword – it may make competitors more aware
	  - You shouldn't put anything on the Web that wouldn't be in an ad

Making the Internet work for you	• Make sure you monitor your service and deliver what is expected - Make sure you have a tracking system • Don't make it interactive if there is no return on investment – the objective is to get an acceptable return on investment • You have to educate customers to buy over the Internet • E-business should be automated and should be available to all clerical support areas as it will reduce work and make people available to add value (meaning better prices and better deals with suppliers)

Can the Internet be improved?	• It is convenient and a time saver
	  - people spend 1 to 2 hours at a crack on the Internet
	  - It may not be for everyone
	  - It can be time consuming to find something on the 'Net' – there is too much information
	• It could shut down some jobs but it will create others
	• Search engines are improving

A Cost/Benefit Analysis

In looking at the hard benefits and costs of doing business on the Internet, as opposed to the long-term or strategic perspective, the balance is significant on both sides of the scales.

Challenges	Solutions
Financial benefits	• Technical data can be accessed easily – it could replace more expensive brochures • Technology reduces inventory, provides better scheduling, JIT (just-in-time), etc., and this requires an integrated system • It saves time if a request is received over e-commerce and then sent out – thereby increasing productivity and saving staffing • Some companies use Autocad, for example, which they can integrate into other systems within the company and which can be used in conjunction with customers or suppliers for functions such as purchasing
Time and efficiency benefits	• The Internet helps obtain new customers (in niche areas), even for customized companies • You can monitor and identify trends • It improves quality of work life - The use of technology can make many tasks less onerous - Used for training, the technology can provide enormous power • Speed to market
Costs	• There are a lot of costs in implementing and maintaining a technology platform for doing business on the Internet • When things don't work, it's expensive to get out bugs • Implementation costs are high - You have to train the staff • Developmental expenses are high - It's costly and time-consuming to test the system for users - Ongoing training for staff - You have to continue purchasing technology to enhance training • You have to train end users - Ease-of-use at the consumer level is often a problem • Loss of productivity during the development stage • You have to use consultants to develop systems – and they're expensive • Merchant Fees are another cost of e-commerce • These costs are not really debatable – you have no choice; to do business today, your customers and vendors must be able to access you electronically

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Growth Builders:

Event Programme – September 29, 1999

7:30 a.m. - 8:30 a.m.	**Registration & Breakfast**
7:30 a.m. - 8:00 a.m.	**One-on-one Networking Meetings for CEOs** (Optional)
8:00 a.m. - 8:20 a.m.	**One-on-one Networking Meetings for CEOs** (Optional)
8:30 a.m. - 8:45 a.m.	**Welcome – Opening Remarks** *Al Palladini*, Minister, Economic Development and Trade
8:45 a.m. - 9:30 a.m.	**The Challenges of Rapid Growth** *Peter Bowie*, Chairman, Deloitte & Touche, Canada (Session Chair) *Jim Balsillie*, Chairman & Co-CEO, Research in Motion Ltd. *Paul Godin*, Founder & Chairman, Bid.Com International Inc. Snapshot of how some of Ontario's fastest growing firms are navigating through the various stages of growth. The voice of CEOs on growth, transition and the challenges they face.
9:30 a.m. - 12:00 p.m.	**CEO Round Tables – Leading Growth Transitions: The CEO's role**
	Inspired by the morning presentations, CEOs share and discuss their leadership strategies, tactics and new solutions for moving their firm through various stages of growth. • How much of your time is spent managing growth? • How do you determine the right level and rate of growth for your firm? • Is your vision and commitment to growth shared within your organization? • How do you stay in touch with your customers and employees during accelerated rates of growth? • How do you keep your people motivated and informed on your vision for the future?
10:45 a.m. - 11:00 a.m.	Break
12:00 p.m. - 1:15 p.m.	**Sponsors' Networking Lunch**
1:15 pm - 1:35 pm	**One-on-one Networking Meetings for CEOs** (Optional)
1:40pm - 2:00 pm	**One-on-one Networking Meetings for CEOs** (Optional)
1:30 p.m. - 2:00 p.m.	**Innovators Alliance: A Community of Growth Builders** (Optional) Innovators Alliance provides an overview of the Alliance, its members, member services and benefits.
2:00 p.m. - 5:00 p.m.	**CEO Round Tables – Growth Drivers: Systems and Strategies**
	Option 1
	Technology Integration for Competitive Advantage • What opportunities can the web and e-commerce provide to increase your bottom-line, develop new market niches and redefine the way you deal with customers and suppliers? • How can technology help you harness a new kind of asset – knowledge? • Are your existing systems contributing to high performance and profits? • How do you assess the cost/benefit of new technology in your firm?
3:15 p.m. - 3:40 p.m.	Break

All the Right Moves

2:00 p.m. - 5:00 p.m. **Growth Drivers: Systems and Strategies (cont'd.)**

Option 2

Alliances, Partnerships and Relationships: A Value Proposition

- What role can alliances, acquisitions, mergers, IPOs and consolidation strategies play in growing your business?
- When do you know when you can't go at it alone anymore?
- How do you protect your assets in an alliance-based growth strategy?
- How can customers, suppliers and competitors contribute to the growth of your business?

Option 3

Business Capabilities: A Balancing Act

- How do you develop the right mix of people capabilities and knowledge to manage core business activities while developing new business opportunities?
- How do you monitor new trends, shifts within your industry, and potential threats from competitors?
- How quickly can your company turn good ideas into profitable business opportunities?
- How do you balance market opportunities and existing corporate strengths?
- Are your financing strategies providing the right leverage to sustain the continuous growth of your business?
- Should you develop them in-house, purchase them or contract them from elsewhere?

NEW! **Option 4**

Revolution not Evolution: Managing Hypergrowth

Ashraf Dimitri, President & CEO, Oasis Technology Ltd.
Heidi Lang, President & Founder, Transatlantic Marketing Group Inc.
Paul Russo, Chairman & CEO, Genesis Microchip Inc.
(Panel discussion with firms whose growth rate exceeds 500%.
Attendance limited to 50 CEOs and Presidents.)

- What unique challenges are associated with extreme rates of growth?
- Was the growth planned?
- How can you sustain extreme rates of growth?
- How does hypergrowth impact on your abilities to focus on the future?

5:00 p.m. - 6:00 p.m. **Sponsors Networking Reception**

6:15 p.m. - 8:30 p.m. **Innovators Alliance Inaugural Dinner**
Welcome Remarks by Master of Ceremonies
John B. Kelly, President & CEO, JetForm Corporation and Chair, Innovators Alliance

7:30 p.m. - 8:00 p.m. **Growth Builders: Perspective from Europe**
Robin Lokerman, Executive Director, Growth Plus/Europe's 500

8:00 p.m. - 8:30 p.m. **Innovators Alliance : Making All The Right Moves**
New Initiatives, Special Announcements

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David Poulson, President,
United System Solutions Inc.

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Stay tuned for more information coming your way...